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[1] reasonable lease rates under scenarios one, two,  
[2] three, and four?  
[3] A: That's correct.  
[4] Q: Okay. And for scenarios one, two, and  
[5] three, there are two approaches. It's direct costs  
[6] and fully distributed costs?  
[7] A: That's correct.  
[8] Q: And for scenario four, even though there's  
[9] two columns, they're exactly the same numbers.  
[10] A: They are. It's really only one scenario.  
[11] It says fully distributed cost. That's just  
[12] because of the way the sheet was set up.  
[13] Q: Okay. What's this -- What does it mean,  
[14] the label, when it says blended cost base?  
[15] A: It's a -- Because the recurring costs were  
[16] taken from a blending of your -- of -- not of your;  
[17] I apologize -- of AT&T's 1991 and 1994 break-even  
[18] analyses.  
[19] Q: I'm sorry. Say that again, please. You  
[20] say the recurring costs were what?  
[21] A: Taken from a blending of the 1991 and 1994  
[22] break-even analyses.  
[23] Q: Okay. There are only five pages here. I'm  
[24] pretty sure I remember there were actually six  
[25] pages, one for each model phone. So I have a

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[1] feeling we made a copying glitch in only having  
[2] five of them here. But that would be -- That would  
[3] be right, wouldn't it, Dr. Cameron; that there  
[4] should be a page like this for each of the six  
[5] phones?  
[6] A: That's correct.  
[7] Q: Okay.  
[8] MR. BENNETT: Go off the record.  
[9] (Off the record.)  
[10] Q: (By Mr. Burke) Dr. Cameron, I'd like to  
[11] now start getting into a little bit more about the  
[12] model that you utilized here. On paragraph 2 on  
[13] page 51, back on Exhibit 2 to your deposition,  
[14] there is a statement that you calculated costs  
[15] using direct costs and fully distributed costs.  
[16] We've already talked about how, you know, there are  
[17] different columns, one for direct costs, one for  
[18] fully distributed costs. Would you just give me an  
[19] explanation of what's the difference between direct  
[20] costs and fully distributed costs?  
[21] A: Yes, sir. Fully distributed -- I think the  
[22] easiest way to do it is first explain fully  
[23] distributed costs takes the direct cost number and  
[24] with the exception of the cost of money portion of  
[25] it, grosses it up by 40 percent for overhead, as an

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[1] overhead gross-up.  
[2] Q: So it only takes a portion of direct costs  
[3] and grosses it up by 40 percent?  
[4] A: It takes everything except the  
[5] cost-of-money portion of it. In other words --  
[6] Q: Hang on for a minute.  
[7] A: Sorry.  
[8] Q: Okay. What's it do -- Or strike that.  
[9] How do you treat the cost-of-money portion  
[10] in arriving at fully distributed costs?  
[11] A: That portion is just -- That portion just  
[12] doesn't happen to be in the -- in the 40 percent  
[13] that is taken out. The fully distributed cost  
[14] includes a cost-of-money portion. It's just not in  
[15] the portion of the 40 percent markup.  
[16] Q: Would that mean that the cost-of-money  
[17] factor doesn't change --  
[18] A: The cost of money does not change, between  
[19] the two, yes. Sorry.  
[20] Q: Your description of that -- So that's all  
[21] it is? It's just simply a 40 percent factor that  
[22] goes on top of, you know, the direct costs, except  
[23] for the cost-of-money portion?  
[24] A: That's correct.  
[25] Q: There's no other measurement associated

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[1] with arriving at fully distributed costs?  
[2] A: That's correct.  
[3] Q: Okay. Well, your description of that makes  
[4] me think that direct costs, then, are constituted  
[5] or made up of, rather, several portions, one being  
[6] cost of money; is that correct?  
[7] A: That's correct.  
[8] Q: Okay. Can you tell me what the -- Well,  
[9] tell me what all of them are that go into making up  
[10] direct costs.  
[11] A: Scenario No. 1 --  
[12] Q: Oh, they change from scenario to scenario?  
[13] A: I mean --  
[14] Q: Is that right?  
[15] A: Yes. There is a difference -- Yes. I  
[16] think we need to be a little more specific. There  
[17] are different measures used. As this explanation,  
[18] there are slightly different measures used in each  
[19] one, of these direct cost measures. The problem is  
[20] direct; there are different measures of costs used  
[21] in each one of these.  
[22] Q: So in each of the four scenarios --  
[23] Actually it's each of the -- just the first three  
[24] scenarios, right? The fourth scenario doesn't do  
[25] any of this?

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[1] A: Fourth scenario is different.  
[2] Q: In each of the first three scenarios, then,  
[3] how you have determined direct costs is different  
[4] from scenario to scenario?  
[5] A: It varies -- Parts of it vary.  
[6] Q: Okay. But then the methodology for  
[7] determining fully distributed costs remains the  
[8] same?  
[9] A: It does.  
[10] Q: Once you've got direct costs, then you can  
[11] get the fully distributed costs?  
[12] A: Yes.  
[13] Q: Okay. Well, let's talk about scenario  
[14] No. 1, then. What goes into making up direct costs  
[15] in scenario No. 1?  
[16] A: Okay. In scenario No. 1, direct costs  
[17] consist of a capital component and an expense  
[18] component. Expense component is recurring costs  
[19] taken from break-even analyses. The break-even  
[20] analyses capital component consists of the  
[21] refurbishment costs --  
[22] Q: Okay. I'm not keeping up. That's all.  
[23] Can't write that fast. Expense component is the  
[24] recurring cost; is that what you said?  
[25] A: Yes. I'm sorry.

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[1] Q: Recurring cost. And you described it in  
[2] more detail than that, or some more detail.  
[3] Recurring costs what?  
[4] A: From the break-even analyses.  
[5] Q: Okay. Then the capital component is what?  
[6] A: Is the nonrecurring cost or the  
[7] refurbishment cost.  
[8] Q: Okay. And where did that come from?  
[9] A: It also came from the break-even analyses.  
[10] Q: And when you refer to break-even analyses,  
[11] you're referring to either an AT&T document or set  
[12] of documents?  
[13] A: AT&T's documents, yes.  
[14] Q: Okay. If you would, help me understand  
[15] what goes into the recurring cost.  
[16] A: Well, we tried to find that out from  
[17] Mr. De Lura. We're not totally sure, but the  
[18] recurring costs are things like maintenance,  
[19] billing, and all of that kind of stuff.  
[20] Q: Okay. In the break-even -- Is there just  
[21] one break-even analysis document?  
[22] A: We have 1991 and 1994 break-even  
[23] analyses --  
[24] Q: Okay.  
[25] A: -- that were utilized.

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[1] Q: Okay. Well, in that document, is there  
[2] just a particular number that's called recurring  
[3] cost?  
[4] A: For each set, yes.  
[5] Q: Okay. So that's where you got the number?  
[6] A: Yes.  
[7] Q: You just took it right out?  
[8] A: It's AT&T's number, yes.  
[9] Q: And then how about nonrecurring costs; can  
[10] you tell me what those are?  
[11] A: The nonrecurring cost is also taken from  
[12] the break-even analyses. It is also unique to each  
[13] set.  
[14] Q: And in the analyses, it's again just a  
[15] number; just there's a list that says -- or a --  
[16] There's --  
[17] A: It is developed within that document.  
[18] Q: But if you went to the document, you can  
[19] just find something that's labeled nonrecurring  
[20] costs in the document?  
[21] A: Yes, yes.  
[22] Q: Okay. Well, again, so I have some  
[23] understanding of what it includes or what it  
[24] covers, what's it mean? What's it cover?  
[25] A: It's mainly the refurbishment cost.

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[1] Q: What's that mean?  
[2] A: AT&T routinely took the phones back and  
[3] cleaned them up, replaced any broken parts, fixed  
[4] them up, and shipped them back out again.  
[5] Q: Okay.  
[6] A: And this was a -- what Mr. De Lura  
[7] describes nonrecurring costs and refurbishment  
[8] costs as one and the same thing.  
[9] Q: So those are the two components of direct  
[10] costs in scenario one; is that right?  
[11] A: Yes.  
[12] Q: And is there a cost-of-money portion in  
[13] here someplace?  
[14] A: Yes. It's applied to the nonrecurring  
[15] costs.  
[16] Q: Is it applied as another component?  
[17] A: The nonrecurring cost is treated as a  
[18] capital or asset cost, and it's applied to it as  
[19] you would an amortization.  
[20] Q: Okay. I think you have to explain that to  
[21] me.  
[22] A: The refurbishment cost is amortized over  
[23] the location life of the phone. The location life  
[24] also is described by Mr. De Lura and is provided in  
[25] the same break-even analyses.

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[1] Q: And are the numbers for location life also  
[2] found in the break-even analyses, in the actual  
[3] numerical values?  
[4] A: Yes.  
[5] Q: I'm looking in the paragraph 3 that  
[6] describes scenario one. The second -- Well, back  
[7] up. Let me -- The first sentence says, Dr. Cameron  
[8] and Dr. Kahn calculate a reasonable lease rate  
[9] using the total cost of refurbishment or  
[10] nonrecurring cost as a proxy for market value. So  
[11] we just talked about what the refurbishment was.  
[12] A: Right.  
[13] Q: But then what does it mean to refer to it  
[14] as a proxy for market value?  
[15] A: It's a proxy for the market value of -- for  
[16] the market value of the asset itself, the asset  
[17] being the phone.  
[18] Q: Okay. So would this total cost of  
[19] refurbishment for, you know, a given phone be  
[20] something like \$50, \$70, I mean, a number like  
[21] that?  
[22] A: It would be more somewhere between probably  
[23] 12 and -- Well, it depended on the phone.  
[24] Q: Okay.  
[25] A: But it would be a number that would

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[1] probably be more -- Depending on the year and  
[2] depending on the phone, it would probably range  
[3] more someplace between nine and -- I don't know. I  
[4] think I've seen numbers as high as maybe 45 or  
[5] maybe ranging up to 50 for some of the phones. But  
[6] it varied by phone by year.  
[7] Q: Well, why do you refer to that as being a  
[8] proxy for market value? Or why do you indicate  
[9] you're going to use it as a proxy for market value?  
[10] A: The refurbishment cost was an important  
[11] cost in the lease business, because these phones  
[12] were transferred over; and one -- in the lease  
[13] business, they came back. The phones went back in.  
[14] A big part of doing business was refurbishing these  
[15] phones and sending them back out for lease,  
[16] especially in the embedded-base component of them.  
[17] They were just sent back in, refurbished, and sent  
[18] back out, and it was one of the big costs. Even  
[19] Mr. De Lura will tell you it was one of their big  
[20] costs. When they start doing the economic recovery  
[21] cost, when they start looking at what the value is  
[22] of replacing their phones, they look at the  
[23] refurbishment cost when they start doing that.  
[24] Q: Okay. But why do you refer to it here as  
[25] proxy for market value?

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[1] A: Because it is a compensatory price to AT&T.  
[2] It is a price that reimburses them for their  
[3] capital costs.  
[4] Q: Okay. Maybe my confusion is -- I mean, as  
[5] I understood it, these phones were for sale also  
[6] and that they had a price. Why wouldn't you use --  
[7] Strike that.  
[8] Why couldn't you consider the sale price of  
[9] the phone as the market value of the phone?  
[10] A: In scenario two we do.  
[11] Q: Okay. I was just -- And I think I've  
[12] gotten off track here with the idea that it somehow  
[13] has to be a proxy for market value. That's not  
[14] really part of the determination you're doing, is  
[15] it? Isn't it just --  
[16] A: Yes.  
[17] Q: You're saying these are the --  
[18] MR. ARMSTRONG: You've got to let him  
[19] finish his question.  
[20] Q: What I'm trying to drive at here is it  
[21] seems to me -- Using the total cost of  
[22] refurbishment as the direct cost in doing your  
[23] calculations, I don't understand why -- or how it  
[24] works into this to say, Okay, I also am going to  
[25] call that a proxy for market value. What

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[1] difference does it make if it's market value or not  
[2] if it's just the direct cost that you're using?  
[3] A: I'm not sure what you mean by if it's just  
[4] the direct costs that you're using. We're looking  
[5] for a means of measuring a reasonable lease rate.  
[6] A lease rate will have to have a cost associated  
[7] with it. I mean, there's got to be an underlying  
[8] cost associated with the price. A cost-justified  
[9] price is what we're trying to get at, so reasonable  
[10] cost basis for a price.  
[11] And we're looking at in this case a  
[12] market-driven, cost-based price, what would that  
[13] be. So we're trying to get at what would be a  
[14] proxy for a -- the value of that asset in the  
[15] market had there been a market for it, and so we're  
[16] looking at two measures of that. One of them was  
[17] the sales-in-place price that we use, and one of  
[18] them was the refurbishment. Both of them are  
[19] values that AT&T told us were asset values at that  
[20] time.  
[21] Q: The next sentence says, The NRC, which  
[22] stands for nonrecurring cost, correct?  
[23] A: That's correct.  
[24] Q: So it says, The nonrecurring cost is  
[25] translated into a monthly cost by annuitizing it

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[1] over the location life at an assumed 20 percent  
[2] before-tax cost of capital; i.e., the cost of money  
[3] plus the associated corporate income taxes, right?

[4] A: That's correct.

[5] Q: Okay. Now, earlier you talked about what  
[6] location life was; is that that's simply some data  
[7] you got from AT&T?

[8] A: That's correct.

[9] Q: Okay. What did you understand that to  
[10] measure?

[11] A: Mr. De Lura wasn't 100 percent sure. He  
[12] thinks that it's the estimated time that it was  
[13] on -- at the premises of the individual, but once  
[14] again, the best source of that would be  
[15] Mr. De Lura.

[16] Q: Okay. Well, as you used it for these  
[17] purposes, was that a measure of the useful life of  
[18] the asset in the hands of the customer?

[19] A: It was the life -- It was for the period of  
[20] time that it was on location at the premises of the  
[21] customer.

[22] Q: Okay.

[23] A: We took him at his word, him being  
[24] Mr. De Lura.

[25] Q: All right. Now, when it says that you

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[1] A: Well, it is properly treated as a single  
[2] document.

[3] Q: Okay.

[4] A: It is not exactly what I thought it was,  
[5] but it will illustrate what -- I think it  
[6] illustrates what I was talking about. It doesn't  
[7] give you exactly what I thought it was.

[8] Q: Before we go too much further with that --

[9] A: Okay.

[10] Q: -- here's what I'm envisioning that seems  
[11] to me might be out there someplace, would be a  
[12] spreadsheet that would have a column marked  
[13] nonrecurring cost. Let me back up. Would be a  
[14] spreadsheet for one of the models, one of the six  
[15] model phones, and it would have a column that would  
[16] say nonrecurring cost. And it would probably vary  
[17] month by month over the years in question, and then  
[18] it would have other columns showing other data, you  
[19] know, monthly costs as annuitized or something like  
[20] that. Is there a spreadsheet like that out there  
[21] someplace?

[22] A: Not that I'm aware of, other than this one,  
[23] which is basically -- I think what you're asking is  
[24] this one broken out.

[25] Q: And you're referring to page 47 of?

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[1] translated the nonrecurring cost into a monthly  
[2] cost by annuitizing it, would you explain to me  
[3] what that means?

[4] A: Amortizing earlier and annuitizing it.  
[5] Basically it's like taking a capital cost,  
[6] financing a car, financing a house, at some given  
[7] interest rate. In this case we're using the cost  
[8] of money, 20 percent, and we are amortizing it or  
[9] annuitizing it over the location life. That's what  
[10] it means, the equivalent of amortizing it over a  
[11] given number of months.

[12] Q: Okay. Is there some spreadsheet someplace  
[13] that lays out the calculations that are indicated  
[14] here in this description of scenario one?

[15] A: Uh-huh. I think those may have been among  
[16] the documents that we handed you this morning.  
[17] (Defendants' Exhibit Cameron 4  
[18] marked for identification.)

[19] Q: Dr. Cameron, let me hand you what's been  
[20] marked as Exhibit 4 to your deposition, which is  
[21] six pages. I don't know if that's a single  
[22] document or not. Maybe we should start there. Is  
[23] it properly treated as a single document, or is it  
[24] multiple documents? Maybe we ought to break it  
[25] apart.

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[1] A: I'm referring to page 47, yeah.

[2] Q: Which is page 47 of Exhibit 3?

[3] A: Of Exhibit 3, yes. And the one you've just  
[4] handed me, Exhibit 4, does this in part for  
[5] scenario three, but it doesn't do it for all of  
[6] them.

[7] Q: Is Exhibit 4 just related to scenario  
[8] three?

[9] A: Yes.

[10] Q: All six pages? I only ask that because  
[11] they look different from -- some of the pages look  
[12] different formats.

[13] A: Well, let me see. I think these are mainly  
[14] just related to scenario three.

[15] Q: Okay. The part of the sentence that says  
[16] you -- when you did this annuitization, that you  
[17] assumed a 20 percent before-tax cost of capital,  
[18] why did you assume 20 percent?

[19] A: As we discussed earlier, I started by  
[20] looking at the cost of money that was approved by  
[21] the FCC for AT&T just prior to the divestiture.  
[22] That was a 12 1/2 percent cost of money. That  
[23] would translate into -- I don't know what AT&T's  
[24] tax rate was about that time, but that would  
[25] translate into something that would be around

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[1] 16 percent, 17 percent, 18 percent, somewhere  
[2] around there, before taxes.  
[3] I also went through AT&T's discovery, and  
[4] in there I saw various repricing documents and  
[5] other documents that went into the period mid to  
[6] early -- early to mid 1990s. And I also saw that --  
[7] AT&T was using in their own planning documents for  
[8] time value of money or for cost-of-money purposes  
[9] similarly the same 12 1/2 percent number, or -- and  
[10] they spelled out a 12 1/2 percent before-tax  
[11] number. So I know --  
[12] Q: You said 12 1/2 percent before-tax number?  
[13] A: I'm sorry. Twelve and a half percent  
[14] before tax, 17 1/2 -- I'm sorry. Twelve and a half  
[15] percent before tax -- I'm sorry. Let me start  
[16] over. Twelve and a half percent before tax --  
[17] Twelve and a half percent after tax, 17 1/2 percent  
[18] before tax. Did I say it right?  
[19] MR. MARKER: Finally.  
[20] A: Thank you. I do it every time. Okay.  
[21] AT&T was using the 17 1/2 percent before-tax number  
[22] in their own planning documents. It was in, like I  
[23] said, early and mid 1990s. I also know as an  
[24] economist that interest rates continued to come  
[25] down and flatten off during that period. So a

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[1] 20 percent number would be conservative, so I was  
[2] building myself in a margin. So I picked  
[3] 20 percent as a conservative number, and I used  
[4] 20 percent.  
[5] Q: You used the same 20 percent over all the  
[6] years?  
[7] A: Yes.  
[8] Q: The interest rates, as you just said,  
[9] changed over all those years.  
[10] A: They fell.  
[11] MR. ARMSTRONG: Let him finish the  
[12] question. Don't anticipate.  
[13] A: Right.  
[14] Q: They changed; whether they went up or down,  
[15] they changed over all those years; is that right?  
[16] A: Yep.  
[17] Q: Why didn't you use a varying rate rather  
[18] than just a constant 20 percent?  
[19] A: We were trying to be conservative, for one  
[20] thing. We were trying to build ourselves in a very  
[21] nice and very generous margin of error so that we  
[22] wouldn't have to worry about fine tuning. And it  
[23] wasn't really necessary given that the same number  
[24] kept cropping up not only in '82, '83, but all the  
[25] way into the '90s.

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[1] So it didn't seem necessary to fine tune if  
[2] you were seeing the same number appearing in AT&T's  
[3] own planning documents in 1983 or '82 that was  
[4] appearing in 1990 whatever. If AT&T was relying on  
[5] it, a number that was less than that, all we wanted  
[6] to make sure that we did was to err on the  
[7] conservative side.  
[8] Q: Well, help me with how this works, if you  
[9] would, please. A monthly cost -- The sentence  
[10] says, The nonrecurring cost is translated into a  
[11] monthly cost by annuitizing it over the location  
[12] life and assumed a 20 percent rate. So if you  
[13] start with -- And you told me earlier that the  
[14] nonrecurring cost for a given phone set might be  
[15] somewhere from \$10 to \$50, right?  
[16] A: Yeah.  
[17] Q: So if you took \$50, let's say, and  
[18] annuitized it -- Strike that. Let me back up.  
[19] And some of the location lives are in the  
[20] vicinity of three years; is that right?  
[21] A: That's correct.  
[22] Q: So if you took \$50 and annuitized it at  
[23] 20 percent over 3 years, you would get a monthly  
[24] figure; is that right?  
[25] A: You would -- Yeah. You would be dividing

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[1] it by some number of months, whatever that is.  
[2] Q: Okay.  
[3] A: Say, roughly 40 months or whatever,  
[4] 36 months.  
[5] Q: Okay. And if you annuitize it, though, at  
[6] 20 percent, that monthly number would be -- Can you  
[7] give me a ballpark? One dollar, \$2, \$3, something  
[8] like that?  
[9] A: Something like that. Let's take a ballpark  
[10] figure. Let's say you had -- Let's say we had the  
[11] \$36 phone, and we divided it by 36 months. So we  
[12] would have a dollar a month. That would -- And we  
[13] were just annuitizing it. But then we would have  
[14] to add on the 20 percent, so it would be something  
[15] in excess of a dollar if those were our figures.  
[16] Q: Okay. That's what I was trying to figure  
[17] out, is how this 20 percent --  
[18] A: Right.  
[19] Q: Simply demonstrating my ignorance about how  
[20] you do this annuitizing.  
[21] A: If I were doing it, I would put it in my  
[22] Hewlett Packard, and I would calculate it as adding  
[23] a 20 percent rate of interest, the same way that  
[24] your mortgage adds it onto your payment. Well,  
[25] actually that's probably not true, because they

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[1] load all the interest up front. The same way your  
[2] car payment probably is calculated. It's built  
[3] into your monthly payment.  
[4] Q: Okay. I think this might be a good place  
[5] to take a lunch break.  
[6] (Lunch recess was held.)  
[7] (Exit Mr. Bonacorsi.)  
[8] We thought about this some at lunch, and I  
[9] think maybe I figured out how to ask the question  
[10] that will help me understand this concept of  
[11] annuitizing that's referenced here in the  
[12] description in scenario No. 1. Taking the  
[13] 20 percent cost of capital factor, would this be  
[14] correct; that if you -- if you assumed the  
[15] nonrecurring cost was \$10 and then said, okay, a  
[16] 20 percent factor would mean -- and applied that to  
[17] \$10, you'd get two more dollars, so you'd get \$12?  
[18] And, say, if I'm going to get a 20 percent return  
[19] on my \$10, I need to get \$12 a year, so I would set  
[20] the monthly rate at a dollar. And if I did that  
[21] and looked at it over 36 months, the location life,  
[22] I would get \$36 back for that phone. Would that --  
[23] A: I'm not sure --  
[24] MR. MARKER: Hang on. Wait for a second.  
[25] A: Sorry.

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[1] Q: Would that be an example of what you refer  
[2] to here as annuitizing something at 20 percent?  
[3] A: I'm not sure I understood your example.  
[4] Your example assumes that we've got \$10.  
[5] Q: That's the nonrecurring cost assigned to  
[6] the phone.  
[7] A: Assigned to the phone.  
[8] Q: Right.  
[9] A: And you're going to spread it over what  
[10] period?  
[11] Q: Thirty-six months.  
[12] A: Okay. So we've got \$10 spread over  
[13] 36 months. That's less than a dollar a month.  
[14] Q: Okay.  
[15] A: I'm not sure where you got your  
[16] dollar-a-month figure.  
[17] Q: Okay.  
[18] A: Somehow you came back to me with a dollar  
[19] a -- \$36, and so that didn't make any sense at all.  
[20] Q: Okay. Let me try again, then. Let's  
[21] assume -- assume we're going to -- assume the  
[22] nonrecurring cost is \$36.  
[23] A: Okay.  
[24] Q: I'll change the example, and we're going to  
[25] spread it over 36 months.

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[1] A: Okay.  
[2] Q: And we're going to apply the 20 percent,  
[3] okay? Can you go -- Can you give me an example of  
[4] how you would do that with this example of \$36 for  
[5] the nonrecurring cost of the phone?  
[6] A: Let's assume that 10 percent is 3.60, and  
[7] 3.60 is what? So we need to get about 8 bucks to  
[8] get 20 percent, right?  
[9] Q: I'm not sure where you just did that.  
[10] A: Okay. On \$36, we're going to get  
[11] 20 percent.  
[12] Q: Right.  
[13] A: And what I'm just trying to do is get  
[14] 20 percent on the \$36.  
[15] Q: Okay.  
[16] A: I'm going to collect \$8 on that, and I'm  
[17] going to do it; and I need to spread that over the  
[18] 36 months. So in addition to collecting the dollar  
[19] every month, because we got to collect the \$36.  
[20] Q: Right.  
[21] A: That's --  
[22] Q: That's a dollar --  
[23] A: That's the 36 bucks. We've got to recover  
[24] the 36 bucks. We've also got to recover  
[25] 20 percent. Eight dollars isn't exactly the right

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[1] number, but assume for me right now that \$8 is the  
[2] right number. We've also got to collect the \$8.  
[3] So we've got to collect something in excess of a  
[4] dollar a month. I don't know what that turns out  
[5] to be for a month. If you spread that 8 bucks over  
[6] the 36 months, we're going to collect the dollar  
[7] plus Y, and that Y is designed to collect the  
[8] 20 percent or the \$8 in my example.  
[9] Q: Would it be as simple as taking, again,  
[10] your example, the \$8, and dividing it by 36 and  
[11] saying that's how much you need to collect every  
[12] month, or is the formula more complicated than  
[13] that?  
[14] A: It's a little more complicated than that,  
[15] because it depends on whether you're doing it at  
[16] the beginning of the month or the end of the month  
[17] and that sort of thing. But in general what you're  
[18] trying to do is collect 20 percent on the \$36.  
[19] Q: Okay.  
[20] A: You're trying to do it in the -- But it's  
[21] basically -- That's it, yes. I'm sorry. I didn't  
[22] mean to confuse you. That's basically it.  
[23] Q: Okay. Again, looking at scenario one, I  
[24] guess if I can -- If you get Exhibit 3, which is --  
[25] You may have broken it apart. This is okay.

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[1] Page 37 is what I want you to look at.  
[2] A: All right.  
[3] Q: That's page 37 from Exhibit 3. In looking  
[4] at the columns that are labeled scenario one, it  
[5] shows for 1984 on a direct-cost basis it's  
[6] 64 cents, right?  
[7] A: 1984 for traditional rotary, the number is  
[8] 64 cents, yes.  
[9] Q: Right. And that would measure the -- what  
[10] you referred to as the reasonable lease rate for  
[11] 1984 for a traditional rotary phone?  
[12] A: Yes.  
[13] Q: And then it goes up in 1985 to 66 cents?  
[14] A: Correct.  
[15] Q: Right. And then '86 it goes up to  
[16] 67 cents?  
[17] A: Correct.  
[18] Q: It keeps going up as they're listed there.  
[19] What changes from year to year that make the rates  
[20] go up?  
[21] A: Couple of things. The nonrecurring cost --  
[22] I'm sorry. This is composed of two components.  
[23] One is the nonrecurring cost component, the  
[24] refurbishment -- the refurbishment cost, the  
[25] nonrecurring cost component, and the other cost is

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[1] the recurring cost. The recurring costs are going  
[2] up, and the movement you see there is predominantly  
[3] in the recurring costs, would be my guess.  
[4] Q: Did the non -- In the calculations that you  
[5] did here, did the nonrecurring costs change at all  
[6] from year to year, or were they always the same?  
[7] A: They were higher, a little higher, in the  
[8] outer (sic) years, I believe, than in the earlier  
[9] years; but they were not as -- probably not  
[10] counting forward as much of the increase as the  
[11] recurring costs.  
[12] Q: Did recurring costs change every year, I  
[13] guess?  
[14] A: Recurring costs did change every year, with  
[15] the possible exception of the years between 1991  
[16] and '94, where we basically just averaged it  
[17] between those years.  
[18] Q: You said between '91 and '94?  
[19] A: '91 and '94, yes.  
[20] Q: Did you have data -- a year-by-year data  
[21] for the time up to '91 and then year-by-year data  
[22] for the time after '94?  
[23] A: No.  
[24] Q: Did you have -- What data did you use? Did  
[25] you have it for every year or just for '91 and '94?

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[1] A: Just for '91 and '94.  
[2] Q: So did you make estimations for earlier  
[3] than '91 and after '94?  
[4] A: Yes, we did.  
[5] Q: Is there any spreadsheet someplace that  
[6] spells out, you know, the numbers that you actually  
[7] used?  
[8] A: Other than here, this -- Other than here, I  
[9] don't have any.  
[10] Q: Would Dr. Kahn?  
[11] A: I don't think so.  
[12] Q: In scenario one, the paragraph 3 in  
[13] Exhibit 2 talks about using the nonrecurring cost,  
[14] but it doesn't say how the recurring costs fit into  
[15] the analysis in scenario one.  
[16] A: The two are added together.  
[17] Q: Did the recurring costs vary -- Strike  
[18] that. Let me go back.  
[19] Did you say that for both recurring costs  
[20] and nonrecurring costs you only had actually data  
[21] for 1991 and 1994?  
[22] A: That's correct.  
[23] Q: Okay. So is there anything that explains  
[24] how you made the estimations for the time prior to  
[25] '91 and the time after '94?

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[1] A: The next documents probably do. I don't  
[2] know what all you have -- exactly what all you  
[3] have, but --  
[4] Q: Is it -- I'll just show you that real fast.  
[5] Is it that sheet?  
[6] A: Yes.  
[7] Q: Okay. We'll get to that, I guess.  
[8] A: And that sheet is?  
[9] Q: Well, we'll -- we'll get to this with that  
[10] document. I just thought that would -- find out if  
[11] that was the one you were referring to. Who  
[12] developed these different models, the four  
[13] scenarios?  
[14] A: I did in conjunction with -- in  
[15] conversations with Dr. Kahn. I mean, we discussed  
[16] them.  
[17] Q: It was a case that one or the other of you  
[18] developed the basic four scenarios, and the other  
[19] one just sort of agreed to them; or how did that  
[20] work?  
[21] A: No. It was more a matter we talked about  
[22] how we would implement the idea. We began talking  
[23] about -- Well, we began, first of all, obviously  
[24] talking about the first thing, which was what data  
[25] we had and what we could do with it. And then we

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[1] began talking about the regulated approach, which  
[2] is essentially scenario three, and then what data  
[3] we had that we could use for market proxies and  
[4] what De Lura had said and what made sense, given  
[5] what we knew about telecommunications, what we had  
[6] read in the deposition -- not deposition, but in  
[7] the depositions but also in the discovery materials  
[8] and what data we had, what made sense.  
[9] Q: Well, looking at page 47, the results vary  
[10] quite a bit. Is, in your opinion, one of them  
[11] right compared to the other ones?  
[12] A: No. They -- No one of them is not right  
[13] compared to the other. They're all right. They  
[14] represent an attempt to -- Given -- Like I said,  
[15] given the data that we had, we were trying to fence  
[16] in or get our hands around the reasonable cost base  
[17] lease price coming at it from a couple different  
[18] directions.  
[19] The directions were, one, what if we used a  
[20] market-based proxy for the capital component of the  
[21] leased cost. That's scenarios one and two. What  
[22] if we used a regulatory-type approach; that's  
[23] scenario three. And then what if we just --  
[24] knowing what we know about the trend in inflation  
[25] and the trend in telephone equipment prices, etc.,

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[1] what would we have expected to have happened to  
[2] those lease rates had we just taken the rates as  
[3] given, whatever they were, right or wrong, the ones  
[4] that occurred at that time and just inflated them  
[5] at inflation, what would we have expected to see,  
[6] what would have happened.  
[7] So between those four scenarios, we would  
[8] expect between them to have come up with a  
[9] reasonable -- the four of them defined a reasonable  
[10] cost-based approach. So one is not righter than  
[11] the other. They're three approaches at the same  
[12] time.  
[13] Q: How about the difference between using  
[14] direct costs and fully distributed costs; what's  
[15] the rationale for doing that?  
[16] A: Pricing decisions are made based on  
[17] different -- within firms based on different  
[18] criteria. As I said before, we're not making any  
[19] assumptions about how AT&T based its pricing  
[20] decisions. In a regulated arena, certainly the  
[21] regulators would allow a company to earn a return  
[22] on and of its capital and all -- all legitimate  
[23] expenses.  
[24] If you go into different type of market  
[25] scenarios, different companies may make different

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[1] assumptions about what pricing -- what their  
[2] pricing formulas are going to be. They may or may  
[3] not be recovering all their overheads in certain  
[4] costs, and in a very, very competitive market, they  
[5] may elect to recover zero overheads in their  
[6] pricing. For example, 7-Eleven may price even  
[7] below costs as loss leaders to get people in the  
[8] store. So somewhere between this direct and this  
[9] overhead, that's where you would expect to see  
[10] prices fall in a competitive market.  
[11] And what we did was just try to make sure  
[12] that we have, by including the 40 percent scenario,  
[13] built in more than enough margin, if you will, more  
[14] than enough wiggle room, that we have overestimated  
[15] the costs and not underestimated them.  
[16] Q: So again, you wouldn't say one way is right  
[17] compared to the other?  
[18] A: One is not righter than the other. There's  
[19] more than one way a firm may make a pricing  
[20] decision.  
[21] Q: Well, are you -- There are, in effect,  
[22] seven different pricing models here; is that right?  
[23] A: There are seven different cases, if you  
[24] will, yeah.  
[25] Q: Okay.

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[1] A: They're not different models.  
[2] Q: Okay.  
[3] A: A model assumes more than -- than -- The  
[4] fully distributed case isn't really a different  
[5] model. It's just a different --  
[6] Q: Yeah.  
[7] A: Okay.  
[8] Q: Let me resay it, then. There are seven  
[9] different pricing calculations here --  
[10] A: Okay.  
[11] Q: -- on page 47, right?  
[12] A: Yes, sir.  
[13] Q: Okay. Is it your opinion that AT&T should  
[14] have used one of these in setting lease rates on  
[15] phones?  
[16] A: What these represent are reasonable  
[17] estimates of cost-based lease prices using AT&T's  
[18] own cost data for these time frames, for these  
[19] particular sets, and the answer is AT&T could have  
[20] used any of these and covered their costs and  
[21] earned a reasonable profit,  
[22] Whether the -- I'm not here to say what  
[23] AT&T should or shouldn't have done. That is not  
[24] what I am here to do. I didn't do a study of  
[25] AT&T's behavior. I'm not here to advise them. I

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[1] didn't do a study of their market. These numbers  
[2] are what they are.  
[3] Q: Let's go to scenario two on page 51 of  
[4] Exhibit 2.  
[5] A: Yes, sir.  
[6] Q: Does this follow, more or less, the same  
[7] approach as scenario one but uses some different  
[8] numbers?  
[9] A: It uses some different numbers.  
[10] Q: Okay. What's the different numbers it  
[11] uses?  
[12] A: Instead of the nonrecurring cost --  
[13] Q: Okay.  
[14] A: -- it uses the sales in place.  
[15] Q: Okay. And does it have -- Scenario two --  
[16] Strike that.  
[17] Does scenario two apply some sort of  
[18] annuitizing over location life?  
[19] A: It applies the same -- It applies  
[20] annuitizing over service life instead of location  
[21] life.  
[22] Q: Okay. What -- What is the rate, the  
[23] interest rate, it uses?  
[24] A: The interest rate is the same, the same  
[25] 20 percent.

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[1] Q: What is service life?  
[2] A: The service life is seven years.  
[3] Q: Where did you get that information from?  
[4] A: The information comes from AT&T's  
[5] documents. AT&T tells us in their documents that  
[6] all -- all of the assets that were transferred were  
[7] fully depreciated by -- by 1992, and in a couple of  
[8] places they talk about service life as being six  
[9] years, seven years, or eight years. We picked  
[10] seven years as the middle ground.  
[11] Q: And then what about the recurring costs?  
[12] A: It's the same as in scenario one.  
[13] Q: When we originally talked about the  
[14] difference between -- Strike that.  
[15] When we originally talked about how fully  
[16] distributed costs were derived from direct costs,  
[17] you indicated that some portion of the direct cost  
[18] was not marked up 40 percent; is that right?  
[19] A: That's correct.  
[20] Q: That was the cost-of-money portion?  
[21] A: That was the cost-of-money portion,  
[22] correct.  
[23] Q: How is that -- What is the cost-of-money  
[24] portion in scenario one?  
[25] A: It's the 20 percent. It's the \$8 we were

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[1] talking about before.  
[2] Q: Okay. So it would be the same thing as  
[3] scenario two?  
[4] A: Absolutely, yes.  
[5] Q: In the paragraph that describes  
[6] scenario two, there's a parenthetical comment about  
[7] the sales-in-place price that says, This price  
[8] obviously represents an amount that AT&T considered  
[9] remunerative and, if anything, was overstated  
[10] inasmuch as the SIP was within the exclusive  
[11] control of AT&T. Could you explain what you mean  
[12] by that?  
[13] A: It just simply means that AT&T was  
[14] certainly able to set the price at which their  
[15] charge -- their sales-in-place rate.  
[16] Q: Wasn't that true of anybody who sells  
[17] something?  
[18] A: Yes. Well, I assume that's true.  
[19] Q: Okay.  
[20] A: I don't know -- If everybody who sells  
[21] something has complete charge over it, no, that's  
[22] not true. Some people are not allowed -- do not  
[23] have control over the prices at which they sell  
[24] things. In fact AT&T would not have had complete  
[25] control over all the prices at which they sell

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[1] stuff back then, because some of their rates would  
[2] have still been regulated.  
[3] Q: Okay. But in terms of sales of telephone  
[4] sets, AT&T actually had direct competitors who were  
[5] selling telephone sets during this time frame;  
[6] isn't that right?  
[7] MR. MARKER: I'm sorry. In what time  
[8] frame, Mike?  
[9] Q: 1984 forward.  
[10] A: My understanding is that certainly by 1986  
[11] or so that there were companies out there that were  
[12] selling telephone sets, because I indicated I got  
[13] one in 1986.  
[14] Q: Okay. Well, wouldn't it be reasonable to  
[15] think that AT&T in setting the prices it set for  
[16] sales of telephones had to take into account what  
[17] competitors were setting as prices for sales of  
[18] their telephones?  
[19] A: Well, let's assume that it did. If it did,  
[20] it's reflected in this price, and we used it.  
[21] Q: Okay. The final sentence there in that  
[22] paragraph says, The SIP price, therefore, is  
[23] assumed to include operating expenses and a  
[24] reasonable profit rate. Can you explain to me what  
[25] that means?

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[1] A: I think that this sentence is misstated, in  
[2] that it -- the SIP price itself doesn't include  
[3] operating expenses. Scenario two includes  
[4] operating expenses and a reasonable profit. The  
[5] SIP price itself doesn't include operating  
[6] expenses. The SIP scenario includes operating  
[7] expenses and a reasonable profit, so I think this  
[8] was -- this sentence may have been misstated.

[9] Q: Okay.

[10] A: The scenario two price based on the  
[11] sales-in-place price is reasonable, because it  
[12] includes operating expenses and a reasonable  
[13] profit.

[14] Q: Is it correct that -- I'm still confused by  
[15] the sentence. Does the scenario two approach add  
[16] the recurring costs to the SIP price?

[17] A: Yes, it does.

[18] Q: So just like scenario one, it has the two  
[19] components?

[20] A: It has the two components.

[21] Q: Okay. And then the statement about a  
[22] reasonable profit rate, how does -- is there a  
[23] reasonable profit -- Let me turn that around, or  
[24] let me stop there and go back to scenario one. Is  
[25] there a concept of a reasonable profit rate built

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[1] nonrecurring cost as what you call a proxy for  
[2] market value, and in scenario two you use the SIP  
[3] sales price as that figure?

[4] A: That's correct.

[5] Q: Okay. Everything else was the same?

[6] A: That's correct.

[7] Q: The statement in the paragraph describing  
[8] scenario two that is, again, talking about the SIP  
[9] price and says, This price obviously represents an  
[10] amount that AT&T considered remunerative and, if  
[11] anything, was overstated, what's that reference  
[12] mean that was overstated?

[13] A: It means that the SIP was within the --  
[14] was -- We assumed that AT&T included in their SIP  
[15] price all of the remunerative costs, including some  
[16] reasonable profits, but we marked it up again by  
[17] 20 percent. In other words, AT&T had control over  
[18] that price. They at least covered all of their  
[19] costs, including a reasonable profit, presumably.  
[20] We marked it up again.

[21] Q: Okay. Well, I guess the -- the suggestion  
[22] that statement has to me is that, you know, it's  
[23] stating an opinion that it's overstated compared to  
[24] something that would be the correct statement, and  
[25] this is an overstatement. I'm trying to figure out

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[1] into scenario one?

[2] A: Yes.

[3] Q: Where?

[4] A: It's built in in the 20 percent.

[5] Q: Okay.

[6] A: It's built in in the overhead, in the  
[7] 40 percent overhead, and it's more than built in,  
[8] in that we tried to be more than generous at every  
[9] turn.

[10] Q: But it's not -- There's not some separate  
[11] piece someplace called profit rate that gets built  
[12] into the analysis?

[13] MR. MARKER: With regard to scenario one?

[14] Q: Yes.

[15] A: No. Other than the 20 percent and the --  
[16] Yeah. No.

[17] Q: And so the same for scenario two; there's  
[18] not some separate piece called profit rate?

[19] A: No, other than I'm sure the sales in place  
[20] includes -- included its own profit -- We don't  
[21] know for sure what all AT&T may have included in  
[22] there, but we marked it up by 20 percent anyway.

[23] Q: Okay. So the only -- Is it correct that  
[24] the only difference between scenario one and  
[25] scenario two is that in scenario one you use this

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[1] what is the something that's compared to, what  
[2] is -- would be the correct statement as to which  
[3] this is overstated.

[4] A: Overstated in the sense that we were not  
[5] confident whether or not we needed to mark it up  
[6] again for the cost of money.

[7] Q: The 20 percent?

[8] A: The 20 percent. But we did. We always,  
[9] again, tried to err on the side of being  
[10] conservative and err in AT&T's favor wherever we  
[11] were uncertain.

[12] Q: Okay. Again, there's -- You don't know of  
[13] any spreadsheet someplace that lays out, you know,  
[14] the calculations for scenario two and kind of all  
[15] these different pieces and parts, do you?

[16] A: No, sir.

[17] Q: Let's go to scenario three. I think you  
[18] said the Exhibit 4 is a document that relates to  
[19] scenario three; is that right?

[20] A: Yes, sir.

[21] Q: And this Exhibit 4 is the document that was  
[22] just first given to us at the beginning of this  
[23] deposition; is that correct? This morning?

[24] A: I -- I'm not sure. Michael?

[25] MR. MARKER: I believe that's right.

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[1] A: Yes. Okay.  
[2] Q: Okay. Well, to the extent Exhibit 4 is  
[3] going to help answer these questions, please refer  
[4] to it.  
[5] A: All right.  
[6] Q: I guess, if you just -- As I read the  
[7] description of scenario three, it talks about four  
[8] different items of recovery. Well, let me back up  
[9] here first. This is described here as the -- as  
[10] using the regulated rate-of-return approach. It  
[11] says, This represents the classical regulation  
[12] formula whereby the company is allowed the  
[13] opportunity to set rates at a level that recovers,  
[14] and these are -- I think there are actually four  
[15] things there. There's the return on capital.  
[16] There's -- Number 2 is the return of capital.  
[17] Number 3 is refurbishment costs. And No. 4 is what  
[18] you'd describe as all legitimate operating  
[19] expenses. Is that accurate?  
[20] A: That's correct.  
[21] Q: Okay. So I guess if we can go through  
[22] those one at a time, can you just explain to me  
[23] what you mean by the return on capital?  
[24] A: Yes. In the regulated arena, the utility  
[25] formula or the paradigm used by regulators is that

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[1] the utility's allowed to recover its costs, all  
[2] legitimate costs. And those costs come in two  
[3] forms, capital costs and expenses. Capital costs  
[4] are depreciated over time. That's the return of  
[5] capital. Applied to the undepreciated assets is  
[6] the cost of money. That's the return on capital.  
[7] And then they are also, in addition,  
[8] allowed to recover all legitimate operating  
[9] expenses. Now, in this case, because refurbishment  
[10] is a unique expense to AT&T's lease sets, we  
[11] included it as a -- a separate expense category.  
[12] Q: I didn't get everything written down  
[13] probably in the words you used. When you started  
[14] out saying there are two forms of costs, capital  
[15] costs -- And was the other operating costs, or did  
[16] you call it something else?  
[17] A: Operating costs will do. Expenses,  
[18] operating costs, yes.  
[19] Q: Does the -- Within these four elements that  
[20] we're talking about, is one or the other of those  
[21] considered profit, or is profit built into it  
[22] anywhere?  
[23] A: Profit is built into this scenario in  
[24] several places. First of all, profit is built in  
[25] in the sense that the return on capital is the same

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[1] 20 percent as getting applied to net book value.  
[2] Secondly, profit is built in --  
[3] Q: I'm sorry. I think you're telling me where  
[4] you're saying it's built in, in the scenario that  
[5] you ran in this case, right?  
[6] A: Uh-huh.  
[7] Q: I'm interested in whether or not -- Just  
[8] sort of as an analytical framework, when you talked  
[9] about, you know, what these four things were, is  
[10] one or another of those, you know, identified as  
[11] profit or identified with profit; or, you know,  
[12] analytically where does profit fit in?  
[13] A: Profit is -- fits in in both the return on  
[14] capital, and in this case it's also built into the  
[15] refurbishment cost.  
[16] Q: And is it built into the return on capital  
[17] here because you use the 20 percent?  
[18] A: Yes.  
[19] Q: Do you refer to that as a 20 percent rate  
[20] of return or --  
[21] A: Twenty percent rate of return or 20 percent  
[22] cost of money, yes.  
[23] Q: I'll show my lack of real understanding  
[24] here, I think. Is there -- The 20 percent, is some  
[25] portion of that considered to be the profit and the

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[1] other portion is not? Like, let me -- Would you  
[2] say of the 20 percent, well, 14 percent of that is  
[3] return on capital and 6 percent is profit? Do you  
[4] break it down into smaller pieces, or is the entire  
[5] 20 percent profit?  
[6] A: The 20 percent is only broken down in that  
[7] it is a before-tax number, so that there are some  
[8] tax implications to it; because we don't know what  
[9] the tax number is. So that your after-tax return  
[10] would be different obviously than your before-tax  
[11] number, but other than that, no, it's all return  
[12] on -- it's all return. It's all pure return on  
[13] capital.  
[14] Q: Okay. Well, would the whole 20 percent  
[15] then be considered --  
[16] A: The whole 20 percent is return.  
[17] Q: Is the whole 20 percent considered profit  
[18] in that sense?  
[19] A: Yes.  
[20] Q: And you said in this scenario three that  
[21] profit is also built into the refurbishment cost;  
[22] is that right?  
[23] A: Yes, that's correct.  
[24] Q: Would you explain how that is?  
[25] A: Yes. Because refurbishment is an operating

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[1] expense and we didn't have a separate way of  
[2] dealing with it, we took the amortized or  
[3] annuitized value that we used in scenario one and  
[4] basically carried it over and added it to  
[5] scenario three and used it as our monthly  
[6] refurbishment expense value.  
[7] Now, that value in scenario one, as we  
[8] discussed earlier, has 20 percent added onto it, so  
[9] it has 20 percent built into it. So there's profit  
[10] in the refurbishment aspect of it, and there's  
[11] profit in the net book -- added onto or applied to  
[12] the net book value as well.  
[13] Plus before we added the 20 percent.  
[14] Mr. De Lura tells us the refurbishment or the  
[15] net -- or the -- NBV already had or should have had  
[16] profit in it. So we may be triple counting. We're  
[17] not sure. So it may be there three times, not  
[18] twice.  
[19] MR. MARKER: I think for the benefit of the  
[20] court reporter, you used the initials NBV.  
[21] A: Did I say NBV?  
[22] MR. MARKER: I'm not sure what you meant by  
[23] that.  
[24] A: Nonrecurring costs, not NBV. NRC. Sorry.  
[25] Thank you. Going back to something else. Sorry.

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[1] Q: Let's go through this, then, and now what  
[2] I'd like to do is see how these four elements were  
[3] applied in scenario three. Return on capital, that  
[4] was the 20 percent?  
[5] A: Yes.  
[6] Q: Okay. What was that applied to?  
[7] A: Net book value.  
[8] Q: And where did net book value come from?  
[9] A: We pulled those figures from the Form M  
[10] data.  
[11] Q: Where did that -- Where did the Form M data  
[12] come from?  
[13] A: Form M data are filed with the -- filed  
[14] with the F -- FCC.  
[15] Q: Okay. Filed by who?  
[16] A: Filed by the RBOCs and -- yeah, filed by  
[17] the RBOCs, R-B-O-C, RBOCs, regional Bell operating  
[18] companies.  
[19] Q: Okay. Then the return of capital -- Well,  
[20] let me back up. Is there a time period involved in  
[21] the scenario three calculation?  
[22] A: Yes.  
[23] Q: What's the time period?  
[24] A: That is the service life. That's the seven  
[25] years.

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[1] Q: So return on capital, going back to that,  
[2] 20 percent applied to net book value. So whatever  
[3] the net book value was at a -- at when? How  
[4] does -- I guess this is driving me to the how's  
[5] this really applied. You know, is there a net book  
[6] value number that's associated with January of  
[7] 1986?  
[8] A: Yes, there is.  
[9] Q: Okay. So then 20 percent is applied to  
[10] that?  
[11] A: Well, it would actually be 20 percent  
[12] divided by 12, because it's a monthly number.  
[13] Q: Okay. And then that's spread out -- Or  
[14] that is applied for seven years?  
[15] A: Yes. Well, I'm sorry. Ask me that  
[16] question again.  
[17] Q: That's what I'm trying to figure out. If  
[18] you have this number for net book value in January  
[19] of '86, what do you apply to it for this  
[20] return-of-capital piece -- return-on-capital piece  
[21] and for how long?  
[22] A: You apply it until it is fully depreciated.  
[23] It is depreciated at the end of seven years. The  
[24] 20 percent gets applied until the seventh -- until  
[25] the end of the seventh year.

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[1] Q: Okay.  
[2] A: All right?  
[3] Q: Now, is there a net book value associated  
[4] with February of '86?  
[5] A: Yes.  
[6] Q: Okay. And 20 percent is applied to that?  
[7] A: Well, it would be 20 over 12, but yes.  
[8] Q: Okay. And for seven years again?  
[9] A: Well, it would be -- That gets -- Whatever  
[10] it is for that month. Then when you move it, it  
[11] will be something different as you move forward in  
[12] time.  
[13] Q: Does -- Well, I guess what I'm trying to  
[14] figure out is the seven-year period. How does it  
[15] work? If you start with January of '86, for the  
[16] equipment that you're looking at in January of '86,  
[17] you just treat it for the next seven years, which  
[18] runs you out to 1993?  
[19] A: In January of '86, if you -- if you're  
[20] depreciating something over time -- Let's assume  
[21] you had straight-line depreciation. If you had  
[22] straight-line depreciation, you would have a dollar  
[23] every year for X number of years, seven years.  
[24] Okay. So you have one dollar every year, and you  
[25] would apply 20 percent to it. So you'd have

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[1] 20 cents every year is what you would have.  
[2] Q: Okay. Well, the stock of phones that were  
[3] being leased changes every month; is that right?  
[4] A: That's correct.  
[5] Q: So there's no -- I mean, there's not a  
[6] stock of phones that starts in January of '86 and  
[7] stays in place for seven years --  
[8] A: That's correct.  
[9] Q: -- is that right? So I'm trying to figure  
[10] out how these equations deal with this changing  
[11] body of phones and how this seven-year time period  
[12] relates to all of that.  
[13] A: As I said, first of all, the -- the  
[14] 20 percent is easy, because it was a simple  
[15] 20 percent, .2, divided by 12. We didn't attempt  
[16] to do anything fancier than that. It is simply .2  
[17] divided by 12. The depreciation each month is just  
[18] the depreciation each month. I mean, you're  
[19] straight-line depreciating it over seven years. So  
[20] it is the same every month. I mean, you have  
[21] annual depreciation that's the same every year for  
[22] seven years, so we just divided it so it's the same  
[23] every month.  
[24] So the fact that your stock of phones is  
[25] different is basically irrelevant. The

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[1] depreciation amount is still the same each month.  
[2] You can end up multiplying it by a number of  
[3] phones.  
[4] Q: And the number of phones changes each  
[5] month?  
[6] A: The number of phones changes, right.  
[7] Q: And so, then, the return of capital is the  
[8] depreciation?  
[9] A: That's correct.  
[10] Q: And that your assumption was it's fully  
[11] depreciated over seven years?  
[12] A: That's correct.  
[13] Q: The net book value that you utilized, what  
[14] was in that net book value, a particular -- I mean,  
[15] a given phone set?  
[16] A: The net book value comes from  
[17] Account 231.02. It has to do with the net book  
[18] value as it was transferred to AT&T at the time of  
[19] divestiture, and it --  
[20] Q: Which was what date?  
[21] A: 1/1 -- I'm sorry. 1/1/84 or midnight of  
[22] '83 or whenever the --  
[23] Q: Okay.  
[24] A: But we only utilized the data for which we  
[25] could obtain true-ups. There was some controversy

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[1] over the value of this data as it got transferred,  
[2] in that the data weren't totally clear. You can  
[3] talk further to Dr. Kahn about this tomorrow. He  
[4] has the greater details, because this is some more  
[5] of the work that was done early on when I was still  
[6] in New Mexico.  
[7] But only certain of the states, certain of  
[8] the regional Bell operating companies ever fully  
[9] trued-up all of their data in a way that we could  
[10] utilize the information. And if we couldn't true  
[11] it up and we couldn't verify it, we didn't use it.  
[12] So it was only for those states, for those Bell  
[13] operating companies, where we could verify that we  
[14] had only the right accounts and that it was fully  
[15] trued-up. Some reported the true-ups in their  
[16] Form Ms, and some just never bothered to report it.  
[17] in their Form Ms. We know they trued it up, but  
[18] they didn't report it in their Form Ms.  
[19] Q: Well, the net book value figure, though,  
[20] that you would find in a Form M, is that expressed  
[21] in a per telephone set number, or is it per  
[22] thousands of telephone sets?  
[23] A: It's a gross number, and it is expressed  
[24] not in a per set number. And you will find in the  
[25] information that we've given you the manner in

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[1] which it is -- has been weighted and distributed to  
[2] get a per set number.  
[3] Q: You say we'll find that information you've  
[4] given us. Is that one of these documents?  
[5] A: Yes, sir.  
[6] Q: Which one is that?  
[7] A: Four.  
[8] Q: Exhibit 4?  
[9] A: Uh-huh.  
[10] Q: Okay. Maybe it will make sense to go  
[11] through that Exhibit 4 from beginning to end, but  
[12] not right now. The depreciation -- I may have  
[13] asked this question. I'm sorry. I get myself  
[14] going around in circles here. But the depreciation  
[15] was applied to the net book value; is that right?  
[16] A: No, sir.  
[17] Q: What was -- What was depreciated?  
[18] A: Net book value was depreciated, but  
[19] depreciation wasn't applied to net book value.  
[20] Q: Okay. I'm probably just speaking  
[21] inartfully. So you started with the net book value  
[22] 1/1/84, and then the basic idea is that it would  
[23] depreciate that value over seven years?  
[24] A: That was depreciated over seven years, yes.  
[25] Q: This, again, brings me back to my

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[1] seven-year problem. If you started out with a  
[2] bunch of phones 1/1/84 and you depreciated them  
[3] over seven years, what did you show for -- seven  
[4] years later were you still depreciating something  
[5] in your models?  
[6] A: Seven years after the first seven years?  
[7] Q: Right.  
[8] A: Once they're fully depreciated, they're  
[9] fully depreciated. In a regulatory framework, once  
[10] you've recovered the value of your asset, you're  
[11] not entitled to recover it again. Then from that  
[12] point forward, you're only entitled to recover your  
[13] operating costs.  
[14] But in this case, we are, in essence,  
[15] recovering it again, because we're recovering  
[16] scenario one again. We're recovering the  
[17] refurbishment costs again, because we've added them  
[18] to it. So we're recovering the recurring costs,  
[19] and because we didn't have any other way of  
[20] measuring the refurbishment cost, we added  
[21] scenario one to scenario three; so we are, in  
[22] essence, still recovering the capital -- the  
[23] capital costs and recurring costs from scenario one  
[24] to it.  
[25] So we have an overestimate of the

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[1] refurbishment costs that would include ongoing  
[2] capital costs, because we had no other proxy for  
[3] those refurbishment costs.  
[4] Q: All right. In your calculation, though, is  
[5] there a separate accounting for depreciation, a  
[6] separate element for depreciation?  
[7] A: Yes.  
[8] Q: Does your calculation take into account the  
[9] idea that some of the equipment does in fact get  
[10] fully depreciated after seven years and so it  
[11] doesn't apply depreciation to it anymore -- or it  
[12] does not depreciate that equipment anymore?  
[13] A: I'm sorry. Would you ask me that again?  
[14] Q: Okay. I'm trying to figure out if -- This  
[15] is back to this idea; if you start with a bunch of  
[16] telephones on 1/1/84 and you depreciate them over  
[17] seven years, at the end of those seven years you  
[18] should stop depreciating them; is that right?  
[19] A: When they're fully depreciated, they're  
[20] fully depreciated.  
[21] Q: Okay. Do your calculations do that? Do  
[22] they depreciate it for seven years and then stop  
[23] depreciating it for seven years -- I mean, after  
[24] seven years?  
[25] A: After seven years there is one component of

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[1] scenario three that ends.  
[2] Q: Is that --  
[3] A: The depreciation component ends. The other  
[4] two components continue. The refurbishment costs  
[5] continue, and the recurring costs continue. As I  
[6] said, the refurbishment costs, in essence, contain  
[7] both the capital and recurring costs. We had to  
[8] use it because we had no other means of estimating  
[9] refurbishment costs other than to reutilize the  
[10] whole cost of scenario one again.  
[11] Q: Okay. I guess is it correct that if the --  
[12] The basic understanding here or the basic  
[13] assumption is that all the phones in the class were  
[14] in the class on 1/1/84; is that right?  
[15] A: All the phones in the class were in the  
[16] class on 1/1/84.  
[17] Q: On 1/1/84. So that all the phones in the  
[18] class would be fully depreciated seven years later?  
[19] A: And AT&T's records show that.  
[20] Q: Okay. So there weren't any new phones that  
[21] came into the class at some later point in time  
[22] that had to be depreciated?  
[23] A: That's correct.  
[24] Q: Okay. Why don't we go through Exhibit 4.  
[25] Maybe this will help me. If you just start in and

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[1] explain it.  
[2] A: All right. Looking at the very first one,  
[3] Exhibit 4 basically takes the -- The first column  
[4] says midyear NBV. Stands for net book value.  
[5] Q: Right.  
[6] A: So that's the net book value.  
[7] Q: What is that -- I mean, it looks like it  
[8] says \$14.98.  
[9] A: It does.  
[10] Q: All right. Is that the net book value for  
[11] a --  
[12] A: A phone.  
[13] Q: -- single traditional rotary phone?  
[14] A: A single traditional rotary phone.  
[15] Q: All right.  
[16] A: And it's being depreciated over time at  
[17] 22 cents a month. And this is not very -- That's  
[18] the second column there.  
[19] Q: Okay.  
[20] A: The third column --  
[21] Q: And that's a cents figure?  
[22] A: Yes.  
[23] Q: Twenty-two cents per month?  
[24] A: Yes.  
[25] Q: All right.

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[1] A: This next column says COM and IT.  
[2] Q: Right.  
[3] A: That stands for cost of money and income  
[4] tax.  
[5] Q: Okay.  
[6] A: That will be the 20 percent applied.  
[7] Q: Is that a per month --  
[8] A: Per month.  
[9] Q: And that's 20 percent of the NBV, and  
[10] that's what it's applied to? The 20 percent is  
[11] applied to NBV?  
[12] A: That is the 20 -- That's the depreciation  
[13] expense, yes. I'm sorry.  
[14] Q: And so the total column is simply the  
[15] addition of those two?  
[16] A: Yes.  
[17] Q: Now, before you go to the next page --  
[18] A: I'm sorry.  
[19] Q: -- if you just go down to year 1985.  
[20] A: Uh-huh.  
[21] Q: NBV drops.  
[22] A: Yes.  
[23] Q: Why?  
[24] A: Because you are depreciating this asset  
[25] over time. Net book value will fall as you

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[1] depreciate it over time.  
[2] Q: Okay. But without trying to do the  
[3] arithmetic here, if you depreciate it at 22 cents a  
[4] month for 12 months, whatever that would multiply  
[5] out to be.  
[6] A: Hopefully if you multiplied 22 cents times  
[7] 12 and subtract it from 14.98, you should get a  
[8] number that at least rounded off or proximated at  
[9] 12.67.  
[10] Q: That was my question. It's as simple as  
[11] that?  
[12] A: Yes.  
[13] Q: Okay. Then depreciation expense stays the  
[14] same?  
[15] A: Uh-huh.  
[16] Q: And the CO -- The cost of money plus income  
[17] tax is less. Is that simply because you apply the  
[18] 20 percent to a smaller number, so it gets smaller?  
[19] A: That's right. You're applying it to a  
[20] smaller and smaller base.  
[21] Q: Okay. And so this shows -- Should have  
[22] looked at this before. This gives me the answer I  
[23] wanted. This shows it goes to zero after seven  
[24] years. The net book value goes to zero after seven  
[25] years; is that right? Because it's fully

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[1] depreciated?  
[2] A: Yes.  
[3] Q: Okay.  
[4] A: I tried to take you here. You wouldn't go.  
[5] Q: So pages 1 and 2 are simply that same set  
[6] of numbers for all six models?  
[7] A: That's correct.  
[8] Q: Let's go to page 3.  
[9] A: Okay.  
[10] Q: That's labeled average net book value by  
[11] set type, and I think it has the second label that  
[12] is sales from inventory price basis.  
[13] A: Yes. And these --  
[14] MR. MARKER: I don't think there's any  
[15] question.  
[16] A: Pardon?  
[17] MR. MARKER: I don't think you have a  
[18] question yet.  
[19] Q: Not yet. Well, I guess, the first column  
[20] is just listing the six different types of phone  
[21] sets, right, traditional rotary, traditional  
[22] touchtone, princess rotary, princess touchtone?  
[23] A: Right.  
[24] Q: And then the second column is labeled SFI  
[25] price. Stands for sales from inventory price?

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[1] A: That's correct.  
[2] Q: Then it just lists a price for each of the  
[3] six models?  
[4] A: That's correct.  
[5] Q: The next column is labeled 1/84 SIS BOP.  
[6] That stands for sets in service beginning of  
[7] period, right?  
[8] A: That's correct.  
[9] Q: Underneath that it appears to say  
[10] Pennsylvania?  
[11] A: That's correct.  
[12] Q: Okay. Take it from there, if you could,  
[13] please, and explain to me what those numbers are.  
[14] MR. MARKER: The numbers in the column for  
[15] Pennsylvania?  
[16] Q: Yes.  
[17] A: The numbers in here represent the sets in  
[18] service. These numbers here are used -- In this  
[19] particular table, it might be better if you  
[20] discussed with Dr. Kahn, and I will tell you why.  
[21] This particular table was used by Dr. Kahn to  
[22] translate the average net book values into  
[23] individual net book values for the individual sets  
[24] in service.  
[25] Q: Okay.

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[1] A: I can discuss it conceptually with you, but  
[2] I think we would be wasting a lot of time. It  
[3] would be much more meaningful if you just discussed  
[4] it with him. The net book value, as I mentioned to  
[5] you before, you can see that Pennsylvania, New  
[6] Jersey, and Delaware, are the states that are  
[7] involved here.  
[8] Q: Yes.  
[9] A: Those are the states that are involved,  
[10] because those are the states where we could get the  
[11] Form M data that was clear and well trued up. We  
[12] could get the Account 231.02 data on CPE single-set  
[13] data from those states that was well trued up.  
[14] Then we also had a document filed by AT&T in the  
[15] comments and Computer Inquiry II that told us that  
[16] 33.8 percent of that account was single-line  
[17] phones.  
[18] So we knew that -- of that value.  
[19] 33.8 percent of it were single-line phones. And  
[20] Dr. Kahn took it from there and translated it into  
[21] a value for each of the individual sets. The  
[22] weighting factors that he came up with are  
[23] represented by the work in these pages.  
[24] Q: Okay. Does page 4 -- That's part of that  
[25] same set of working papers, since it seems to have

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[1] information relating to Pennsylvania?  
[2] A: Yes, sir. As you can see on here, I can  
[3] see the true-up and the information net of the  
[4] true-up and the 12A and the 14A refer to the  
[5] true-ups. That's information from subsequent  
[6] years' Form Ms that we would have had to gone and  
[7] obtained in order to do the true-ups.  
[8] Q: Okay. So I should talk to Dr. Kahn about  
[9] this?  
[10] A: Yes, sir.  
[11] Q: Okay. Page 5 is part of that?  
[12] A: Yes, it is.  
[13] Q: And page 6 is the same?  
[14] A: That looks like a much clearer -- And you  
[15] can also see the 33.8 percent here.  
[16] Q: Okay. I think with respect to the  
[17] scenario three, the one thing we didn't talk about  
[18] at all again or talk about at all was this category  
[19] of legitimate operating expenses as apart from  
[20] refurbishment costs. Would you explain to me what  
[21] those are?  
[22] A: As in the other scenarios, that is the  
[23] recurring cost.  
[24] Q: Are those the same numbers you used in  
[25] other scenarios?

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[1] A: Apart from the refurbishment, yes.  
[2] Q: And again, that data came from the 1991 and  
[3] 1994 break-even analysis?  
[4] A: Yes, sir.  
[5] Q: The description of the operating costs  
[6] calls them legitimate -- all legitimate operating  
[7] costs. Did you make some effort in this analysis  
[8] to make a determination between legitimate  
[9] operating costs and nonlegitimate operating costs?  
[10] A: No. We accepted AT&T's representation that  
[11] their recurring costs were all legitimate.  
[12] Q: Okay. Referring them as legitimate  
[13] operating costs -- Strike that.  
[14] Is it a typical -- Strike that again.  
[15] In regulatory proceedings, is it typical to  
[16] refer to operating costs as legitimate operating  
[17] costs?  
[18] A: Yes, it is. Legitimate -- Only legitimate  
[19] or prudent operating costs are allowed to be  
[20] recovered.  
[21] Q: And regulatory proceedings, the regulatory  
[22] body does make an effort to determine what are  
[23] legitimate and what are not legitimate costs for  
[24] purposes of return on a regulated rate of return?  
[25] A: Not for purposes of regulated return, but

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[1] they do for purposes of recovery.  
[2] Q: Okay. Going to scenario four, it says,  
[3] Dr. Cameron and Dr. Kahn calculated a reasonable  
[4] lease rate based on the lease rates charged during  
[5] the transition period of January 1, '84, to  
[6] December 31, '85. Where did you get information  
[7] regarding the lease rates charged during the  
[8] transition period?  
[9] A: The information was taken from AT&T's --  
[10] I'm sorry. I'm going to have to ask you to repeat  
[11] that. For lease rates that were charged during the  
[12] transition period?  
[13] Q: Yes. That's -- The statement here says you  
[14] calculate a reasonable lease rate based on lease  
[15] rates charged during the transition period from  
[16] January 1, '84, to December 31, '85. I just want  
[17] to know where you got information with regard to  
[18] the lease rates charged during the transition  
[19] period from January 1, '84, to December 31, '85.  
[20] A: We took those from the discovery documents,  
[21] but we had to have them confirmed by counsel;  
[22] because we did have some questions about them, but  
[23] mainly they came right off -- directly off of  
[24] AT&T's discovery documents.  
[25] Q: Okay. Then it says you applied a general

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[1] rate of inflation as measured by the gross domestic  
[2] product price index.  
[3] A: Yes.  
[4] Q: Is there a document that shows inflation  
[5] rates that you used?  
[6] A: Yes, sir. You showed it to me a moment  
[7] ago.  
[8] Q: Okay. That document?  
[9] A: Looks right.  
[10] Q: Mark that.  
[11] (Defendants' Exhibit Cameron 5  
[12] marked for identification.)  
[13] Dr. Cameron, let me hand you what's been  
[14] marked as Exhibit 5 to your deposition.  
[15] A: All right.  
[16] Q: If you'd take a look at that. I'll  
[17] represent to you that this is what came to us as  
[18] Appendix B to the interrogatory answer that is  
[19] Exhibit 2.  
[20] MR. MARKER: Just for the record, Michael,  
[21] what you're calling interrogatory answers is what  
[22] we refer to as expert disclosures, right?  
[23] MR. BURKE: That would be fine.  
[24] MR. MARKER: I just don't think it's  
[25] identified as interrogatory answer.

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[1] MR. BURKE: I called it one earlier and  
[2] said that's what I was calling it.  
[3] MR. MARKER: I know you've done it.  
[4] MR. BURKE: I'm happy to call it whatever  
[5] you want. Clarity is the only thing we need here.  
[6] So expert disclosure is fine.  
[7] A: Okay. Yes, sir.  
[8] Q: (By Mr. Burke) Is it the case that the  
[9] first six pages simply showed the -- what you are  
[10] calling the reasonable lease rates that you  
[11] calculated for the six different model phones under  
[12] the four different scenarios that we've been  
[13] discussing?  
[14] A: Yes, sir.  
[15] Q: And in fact we had another exhibit that had  
[16] five of these pages anyway?  
[17] A: Yes.  
[18] Q: Not all six of them?  
[19] A: Yes.  
[20] Q: And then page 7, is this the -- is this the  
[21] table of lease rates that you used representing the  
[22] actual lease rates charged by AT&T?  
[23] A: These appear to be the lease rates, and  
[24] these look like all of the right sources. But I  
[25] will tell you that the damages reports themselves

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[1] have the -- I believe, have the lease rates on  
[2] them. So we could --  
[3] Q: Okay.  
[4] A: -- tell that for sure, but they appear to  
[5] be.  
[6] Q: Okay. Well, then, page 8 --  
[7] A: I don't have them all memorized, but they  
[8] look right.  
[9] Q: Okay. Page 8 of this exhibit is what you  
[10] were indicating earlier, shows the inflation rates  
[11] that were used as part of the scenario four  
[12] calculations; is that right?  
[13] A: That's correct.  
[14] Q: Can you, I guess, explain this document?  
[15] To begin with, it has an indication at the top that  
[16] says blending 1991 and 1995 data. Can you tell me  
[17] what that means?  
[18] A: Yes, sir. It probably should say 1991 and  
[19] 1994 data. But as I indicated, we had a 1991 and a  
[20] 1994 break-even analysis. And we took those, and  
[21] we -- in order to get the time series of recurring  
[22] costs -- I'm going to use recurring costs, because  
[23] that's common to all of our scenarios; and it's a  
[24] good example.  
[25] We needed to grow those numbers basically

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[1] over time and -- or some way to get back to 1986  
[2] and go forward to -- or go forward in time. So  
[3] what we did was we took the 1991 number, and we  
[4] deflated it by GDPPI back to -- Actually we went  
[5] all the way back to 1984, but back to 1986; and  
[6] then we took the 1994 number, and we inflated it  
[7] forward to the year 2000. Actually we went to  
[8] January of 2000. And then in between we basically  
[9] just straight-lined them, averaged them in between  
[10] there. The factors that we applied are given in  
[11] these columns right here. The factors are shown in  
[12] this column right here, under factor.  
[13] Q: Let me see if I can understand the columns.  
[14] The column says GDPPI. Is that -- Does that show  
[15] the gross domestic product price index for each of  
[16] those years, from 1984 to 2000?  
[17] A: Yes. It is the index for each of those  
[18] years, I believe.  
[19] Q: And where does that information come from?  
[20] A: As indicated down here under sources, we  
[21] got economic report of the president for the years  
[22] up to 1996, survey of current business for the  
[23] years since then.  
[24] Q: Okay. Is this an index that was reported  
[25] on the same basis through this whole time period?

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[1] A: Yes.  
[2] Q: So you didn't have to adjust it?  
[3] A: No, no. We don't do the adjusting. This  
[4] is a commonly used index by -- put out by the  
[5] Bureau of Economic Analysis, Bureau of Labor  
[6] Statistics. The federal -- The feds put this out.  
[7] They do all the adjusting. We don't touch it.  
[8] Q: From time to time, is it readjusted to  
[9] reset a year to 100?  
[10] A: From time to time, it has been readjusted  
[11] to reset it to a hundred, yes.  
[12] Q: So in this particular listing, it shows  
[13] 1996 as 100, right?  
[14] A: Yes.  
[15] Q: So -- And all I want to make sure of is  
[16] that all of this, you know, going before '96 and  
[17] going past '96 is all in fact an index based on '96  
[18] being 100?  
[19] A: That's correct.  
[20] Q: And that's an index based on -- It's on the  
[21] same basis per year?  
[22] A: Yes. We could rebase it. I mean, you  
[23] could theoretically rebase it and make 1994 100,  
[24] and you would still get the same changes.  
[25] Q: Okay. Now, going over to the column that's

[1] A: In other words, GDPPI is a -- is a factor  
[2] there. That's an index. And what we're doing  
[3] here, in going from one to .67 (sic), is we're  
[4] deflating it by the amount of change in that index.  
[5] Q: I got you. Go to the column called growth.  
[6] A: Okay.  
[7] Q: How is that column developed?  
[8] A: You know what? I don't know what growth  
[9] is. I don't know if this was ever utilized or if  
[10] that was something Dr. Kahn was going to use but  
[11] didn't. You'll have to ask him about that.  
[12] Q: Okay. If you go to page 47 of the  
[13] Exhibit 3, okay?  
[14] A: Uh-huh.  
[15] Q: Just look at the scenario four numbers. It  
[16] shows the lease rate, and this is for traditional  
[17] rotary phones. The lease rate in 1984 is a dollar  
[18] 50; is that right?  
[19] A: That's correct.  
[20] Q: And it also shows -- And this is the  
[21] scenario where -- Okay. Inflate -- You didn't  
[22] start inflating this until 1986, right?  
[23] A: That's correct.  
[24] Q: Okay. So the rate for '94 and '95 was the  
[25] same, a dollar 50 both here?

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[1] marked factor, okay, it shows ones for '91, '92,  
[2] '93, '94, and '95, right?  
[3] A: Yes.  
[4] Q: Okay. Why?  
[5] A: We didn't inflate it or deflate it. We  
[6] just averaged '94 and '95 during that period.  
[7] Q: When you say averaged, earlier you talked  
[8] about doing a straight-line interrelation between  
[9] the two numbers.  
[10] A: I believe it was just an average of the two  
[11] numbers, and then it was straight -- the constant  
[12] between them.  
[13] Q: Okay. And then the number in the factor  
[14] column for 1990 is .967, right?  
[15] A: Yes.  
[16] Q: Okay. How is that computed?  
[17] A: That means it would have taken the value in  
[18] 1991 and basically deflated it by a ratio of one to  
[19] .967.  
[20] Q: But where did .967 come from?  
[21] A: If you -- If you look at the ratio of  
[22] .89 -- 89.76 to 86.84, you should get something  
[23] that will give you something in the neighborhood of  
[24] going to -- from 1.0 down to .967.  
[25] Q: Okay.

[1] A: That's correct.  
[2] Q: And then you apply an inflation rate to it  
[3] in '96 to go from a dollar 50 to a dollar 53; is  
[4] that right?  
[5] A: That's correct.  
[6] Q: Okay. Can you look at page 8 of Exhibit 5  
[7] and tell me how you get inflation rate off of  
[8] page 8 that you -- that was applied to inflate the  
[9] dollar 50 to a dollar 53?  
[10] A: How you get the inflation rate off of  
[11] page 8?  
[12] Q: Right. Maybe you don't, but I was thinking  
[13] you did. I was thinking the factor column here for  
[14] inflation rates was inflation rate factor that you  
[15] applied.  
[16] A: You don't apply the factor directly. The  
[17] factor translates into -- If I were going to go  
[18] from -- Let me see. From '95 to '96, you're going  
[19] to go from one to two, so that would be about  
[20] 4 percent. This column, this growth column, may be  
[21] the percentage that this factor translates into.  
[22] Let me caution that these are not  
[23] immediately recognizable as the percentages from  
[24] right here, for one thing, because, remember, price  
[25] changes occur at midyear; and it might be easier,

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[1] at least for me, rather than working with these is  
[2] to look at the damage reports themselves. You can  
[3] see the prices in there perhaps a little easier.  
[4] But if you want to make sure how you go from here  
[5] to here, this growth rate looks like to be the --  
[6] to take this GDPPI index, translate it into a  
[7] percentage change, and apply it; and that --  
[8] percentage change looks like it's applied to this.  
[9] Q: But Dr. Kahn would probably be the one that  
[10] can explain that?  
[11] A: Yes. If I had my calculator here, I could  
[12] verify that for you very quickly, but I think he  
[13] could verify that for you in two seconds.  
[14] Q: Okay. Is scenario four -- I hope I wasn't  
[15] misspeaking before. But anyways, scenario four  
[16] generally reflects an assumption that -- Well,  
[17] strike that.  
[18] First it reflects an assumption for  
[19] purposes of scenario four that the lease rates that  
[20] were being charged on December 31, '85, were  
[21] reasonable; is that right?  
[22] A: No, sir. I take them as given. That's not  
[23] the same thing as saying that they were or were not  
[24] reasonable. As we discussed this morning, AT&T did  
[25] not do a cost of service -- I'm sorry. FCC did not

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[1] do a cost of service on those rates at the time of  
[2] transfer. They could have been -- There was -- I  
[3] don't know when the cost of service was done. I  
[4] don't know what went into those rates. We don't  
[5] know how those rates were set. We don't know what  
[6] all the commissions -- those states' commissions  
[7] did when they set those rates.  
[8] Q: Okay.  
[9] A: I take them as given. I make no  
[10] pronouncement as to their reasonableness.  
[11] Q: Okay. Well, assuming those are the base  
[12] rates starting as of 1/1/86, the methodology of  
[13] just applying a general rate of inflation to those  
[14] rates, does that reflect an assumption that AT&T's  
[15] costs were increasing at the rate of inflation that  
[16] you applied?  
[17] A: No. It reflects the fact that I would  
[18] have -- I looked at those -- I applied the general  
[19] rate of inflation because my knowledge that that  
[20] telephone product -- telephone equipment product  
[21] prices were coming down. Producer price  
[22] equipment -- Producer prices in equipment for  
[23] telephone had been falling. We know that.  
[24] Interest rates are generally falling.  
[25] So generally I would have expected to see

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[1] everything else that -- at least if -- if it was a  
[2] fairly competitive world, at least that AT&T's  
[3] rates would not have gone up by any more than the  
[4] rate of inflation. So we applied the general rate  
[5] of inflation, and what we saw was that their lease  
[6] rates went up by more than that.  
[7] Q: Okay. So you didn't really consider what  
[8] was going on with AT&T's costs as such in  
[9] scenario four?  
[10] A: In scenario four we did not look at costs,  
[11] that's correct.  
[12] Q: Okay. I think I may have asked you this  
[13] before, but in case I didn't, let me try it anyway.  
[14] If you'd look at, I guess, Appendix B, since that's  
[15] the thing that came with the expert disclosures.  
[16] Just look at page 1. That would be fine.  
[17] A: Yes, sir.  
[18] Q: Okay. These are -- I think I did ask you  
[19] this before; that this is just a summary of the  
[20] results of your computation of what you refer to as  
[21] reasonable lease rates under the four different  
[22] scenarios that we've talked about for a traditional  
[23] rotary phone; is that right?  
[24] A: That's correct.  
[25] Q: Okay. Now, my question is: Do you have in

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[1] your files any spreadsheets laying out the details  
[2] of these calculations, the way you've described  
[3] them as we went through the discussion of scenarios  
[4] one, two, three, and four?  
[5] A: Well, other than we -- I mean, I know that  
[6] these numbers right here went into the calculation  
[7] of scenario three, and I'm referring to Exhibit 4.  
[8] Q: Right.  
[9] A: Were utilized in the development of  
[10] scenario three. Other than that, I am not aware of  
[11] any particular -- I'm not aware of any  
[12] spreadsheets. I am not.  
[13] Q: Okay. By that question, I mean whether in  
[14] paper form or electronic form.  
[15] A: No, I don't, I don't.  
[16] Q: Okay. I think this would be a good point  
[17] for a break.  
[18] (Off the record.)  
[19] (Defendants' Exhibit Cameron 6  
[20] marked for identification.)  
[21] Let me hand you what's been marked as  
[22] Exhibit 6 to your deposition, Dr. Kern -- Cameron.  
[23] Sorry. It's getting late. Power of suggestion is  
[24] strong.  
[25] A: Yes, sir.

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[1] Q: Okay. This is what came to us as  
[2] Appendix A to the expert disclosure that was marked  
[3] as Exhibit 2 to your deposition, and I'm not sure  
[4] it came broken down in these pieces. But I have  
[5] broken it down into six pieces.  
[6] A: Uh-huh.  
[7] Q: And I've also numbered all the pages  
[8] consecutively from one through 116, so hopefully we  
[9] can talk about it and make sense on the record. It  
[10] looks to me like each of the six segments are set  
[11] up the same way; that there's a summary page, and  
[12] then the actual spreadsheet calculations are  
[13] attached to the summary page. Would you verify  
[14] that for me?  
[15] A: Yes. Thank you. I'll do that in just a  
[16] second. Yes, sir.  
[17] Q: Okay. And then the basic breakdown, I  
[18] think, is that there are -- starting with the first  
[19] packet that's on page -- on one, that that's a  
[20] calculation of what you're calling the damage  
[21] estimates for the four different scenarios but not  
[22] applying any interest to them?  
[23] A: That's correct.  
[24] Q: Okay. Then the second packet which starts  
[25] on page 21, it is the same calculation but this

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[1] time with an interest rate that is identified as  
[2] the Illinois interest rate?  
[3] A: That is correct.  
[4] Q: Okay. And then packet No. 3, which starts  
[5] on page 40, is the same calculation but this time  
[6] with an interest rate applied that's identified as  
[7] the New Jersey interest rate?  
[8] A: That's correct.  
[9] Q: And then packet No. 4 starts on page 59,  
[10] more or less starts over again. This is a  
[11] calculation without an interest rate, but it's done  
[12] on the ERO version of the calculations?  
[13] A: That's correct.  
[14] Q: Okay. And then packet four (sic) starts on  
[15] page 79, is the ERO version of the calculation with  
[16] the Illinois interest rate; is that correct?  
[17] A: That's correct.  
[18] Q: And then packet six starts on page 98, is  
[19] the ERO version of the calculation with the New  
[20] Jersey interest rate?  
[21] A: That's correct.  
[22] Q: And again, the ERO version -- the  
[23] difference between the ERO version and the other  
[24] version is the treatment of the existing ins  
[25] telephone sets?

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[1] A: That's correct.  
[2] Q: And ERO version, the existing ins are  
[3] included in the class sets on a proportional basis?  
[4] A: That's correct.  
[5] Q: And then in the other version, the existing  
[6] ins are not included in the class set?  
[7] A: That is correct.  
[8] Q: All right. So is the interest that is  
[9] computed in the sets where interest is computed --  
[10] is that computed on a simple interest basis, or is  
[11] it compounded in some way?  
[12] A: It is not really compounded. It is simple  
[13] in that if you had -- say, the interest were  
[14] calculated to be \$5 in 1984, that -- and \$5 would  
[15] carry -- that same \$5 would carry through for all  
[16] the years, but it wouldn't add up and get added to  
[17] 1985's and then become part of the compounding  
[18] process. So it is simple interest.  
[19] Q: Okay.  
[20] A: It's additive -- We didn't just take the  
[21] damages and multiply them by 5 percent. That's not  
[22] what happened.  
[23] Q: Right.  
[24] A: But it is also not compounded.  
[25] Q: Okay.

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[1] A: So it is something in between.  
[2] Q: I think the way the damages are calculated,  
[3] at least when we go through the spreadsheets, it  
[4] looks to me there is a damage calculated for each  
[5] month starting in January of '84?  
[6] A: That's correct.  
[7] Q: And then I believe the interest is simply  
[8] applied to that month's damages for however many  
[9] months it is to the end of the calculation period,  
[10] to sometime in 2000?  
[11] A: The interest is applied to the relevant  
[12] month -- Or the relevant interest is applied to  
[13] each month, and then the relevant months are  
[14] summed. That doesn't mean interest in '84 was  
[15] summed up. It just means that the figures begin in  
[16] '84, because our sets-in-service data began in '84.  
[17] That doesn't mean that we added up damages starting  
[18] in '84.  
[19] Q: Oh, okay.  
[20] A: Damages are from January of '86 through  
[21] January of 2000.  
[22] Q: Okay. Well, let's go through set No. 1 --  
[23] A: Okay.  
[24] Q: -- to get a -- make sure I understand.  
[25] Going to page 2, this is the calculation for the

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(1) traditional rotary phone; is that right?  
(2) A: Traditional rotary, yes.  
(3) Q: Okay. And has the year and date column.  
(4) Then it has a column for class SIS. That means  
(5) class sets in service, right?  
(6) A: That's correct.  
(7) Q: And then the next column is labeled price,  
(8) but in fact that's the lease rate you use as the  
(9) lease rate actually being charged by AT&T in that  
(10) month, right?  
(11) A: That is correct. That is the lease rate  
(12) applied by AT&T.  
(13) Q: Okay. And if you go to Appendix B --  
(14) A: B as in boy?  
(15) Q: Right. -- and go to page 1, am I right  
(16) that page 1 is the summary of what you call the  
(17) reasonable lease rates that you've calculated for  
(18) traditional rotary phones under the four different  
(19) scenarios?  
(20) A: That's correct.  
(21) Q: Okay. So for example, under scenario  
(22) No. 1, 1984, under the direct column, the lease  
(23) rate is 64 cents; is that right?  
(24) A: That's correct.  
(25) Q: And if we come back to page 2 of Exhibit 6,

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(1) the counterpart lease rate listed there for January  
(2) of '86, which would be the lease rate that AT&T  
(3) actually charged, is a dollar 50, right?  
(4) A: That is correct.  
(5) Q: And is the calculation in the page 2,  
(6) scenario one, direct column, simply taking the  
(7) difference between the dollar 50 and 64 cents,  
(8) which would be 96 cents?  
(9) A: Ninety-something cents, yes, sir.  
(10) Q: Okay. And multiplying it by the class sets  
(11) in service of 30,708,106?  
(12) A: Yes, sir.  
(13) Q: And that gets you a number of 26,411,161?  
(14) A: It should.  
(15) Q: All right.  
(16) A: Except for rounding, it should get you  
(17) right there.  
(18) Q: Okay. So that's how the -- So that would  
(19) be the damage figure you've estimated for the  
(20) traditional rotary phones, all of them, in the  
(21) class under scenario one under the direct cost  
(22) method?  
(23) A: Yes. With one caveat: Except there are no  
(24) damages in '84, because we didn't calculate damages  
(25) in '84. It's shown here, because the spreadsheet

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(1) is set up to begin calculating by formula whenever  
(2) it begins calculating. But if you go to page 4 --  
(3) Q: Okay.  
(4) A: -- you will see that we have identified  
(5) that. At the bottom it says '86 through 2000. At  
(6) the top of the -- And in this table, you will see  
(7) that we do not sum necessarily from '84. That's  
(8) what I meant by --  
(9) Q: Okay.  
(10) A: Just because the data goes through '84  
(11) doesn't mean that we calculate damages through '84.  
(12) The data is there if we wanted.  
(13) Q: Okay.  
(14) A: But we didn't.  
(15) Q: Okay. Well, looking at -- I think maybe  
(16) another way of say -- Let me ask to make sure, for  
(17) me to clarify and confirm for myself. If you look  
(18) at page 84 -- I mean page 4, the number at the  
(19) bottom of the scenario one direct column is  
(20) 1,816,000,000, right?  
(21) A: Yes.  
(22) Q: And is it correct that that number is  
(23) simply the sum of all the monthly figures in the  
(24) scenario one direct column starting from January  
(25) '86 and then going all the way through June of

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(1) 2000?  
(2) A: I believe it goes from January of '86  
(3) through January of 2000 --  
(4) Q: Oh.  
(5) A: -- as the heading in this table indicates.  
(6) Q: Oh, on the summary page?  
(7) A: Uh-huh, yes.  
(8) Q: Okay. I didn't try to add those up, but  
(9) okay. Back to page 2 and looking in the price  
(10) column, in calendar year 1986, this is the lease  
(11) rate actually charged by AT&T, and it changes in  
(12) July of '86, right?  
(13) A: We made -- Yes, sir.  
(14) Q: Is that right? It goes from a dollar 50 to  
(15) two and a quarter?  
(16) A: Yes, sir.  
(17) Q: What -- Using your -- In the Exhibit B  
(18) which is -- I mean, Appendix B which is Exhibit 5  
(19) on page 1 of that list of computed what you call  
(20) reasonable lease rates, what lease rates did you  
(21) use off that list to subtract from the lease rates  
(22) shown for 1986 in --  
(23) A: We would have used the '86 number.  
(24) Q: Okay. So you did not -- Even though the  
(25) AT&T lease rate changed, you didn't change your

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(1) computed lease rate?  
(2) A: That is correct. The cost is an annual  
(3) cost. We -- Actually AT&T changed its lease rates  
(4) before July of 1986. Again, as always, in an  
(5) effort to be conservative and because AT&T spread  
(6) their lease rate changes over time, usually over a  
(7) three-month period -- in fact they began increasing  
(8) their rates in February of '86 -- we had -- for --  
(9) for -- to simplify our calculations, we erred on  
(10) the side of being conservative and giving the  
(11) advantage to AT&T. So we picked the midyear  
(12) convention.  
(13) In every year we picked July as the date to  
(14) change the rate. So we assumed that the lease rate  
(15) change goes into in effect in July, when in fact we  
(16) know for a fact that AT&T really started increasing  
(17) their lease rates in February of '86. So the rates  
(18) started going up in February of '86, but our  
(19) damages are low in that they don't show any lease  
(20) rate increases until July of '86.  
(21) Q: But in terms of the calculated lease rates,  
(22) the so-called reasonable lease rates, you just used  
(23) the same lease rate for the entire year?  
(24) A: That's correct.  
(25) Q: In terms of the interest rates in the other

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(1) package that have interest rate calculations on  
(2) them, one is identified as Illinois; one is  
(3) identified as New Jersey. Why did you pick  
(4) Illinois and New Jersey?  
(5) A: We were advised by counsel on those. We  
(6) were told to use those particular interest rates.  
(7) Q: Okay. And do you remember what the --  
(8) Well, do you remember what the interest rate for  
(9) Illinois was?  
(10) A: For Illinois?  
(11) Q: Yes.  
(12) A: Illinois was 5 percent.  
(13) Q: Okay. Just a simple 5 percent?  
(14) A: It was 5 percent in all years.  
(15) Q: Okay. And for New Jersey, there was a  
(16) schedule of --  
(17) A: A whole schedule of different rates, yes.  
(18) Q: Okay. Do you have a single piece of paper  
(19) someplace that tells you what the New Jersey rates  
(20) are?  
(21) A: Yes, sir. If it is not at the back of  
(22) here, it is a court document from one of -- from  
(23) the -- that was given to me by counsel and that we  
(24) did provide as one of the documents we relied upon.  
(25) So I'm assuming that that was turned over to you.

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(1) Q: Okay.  
(2) A: I don't -- I don't see it here, and I guess  
(3) we didn't put it back in the back as our -- and  
(4) list it, identified the source. But it is a court  
(5) document that was given to us by counsel.  
(6) Q: Okay. You indicated that in the summary  
(7) sheets, the way they were calculated to add up the  
(8) damages, that they did not include damages for '84  
(9) and '85.  
(10) A: That's correct.  
(11) Q: Why? I mean, your calculation showed under  
(12) your model there was big damages for '84 and '85.  
(13) A: Well, we were told, first of all, that  
(14) legally the damage period begins in January of '86;  
(15) and secondly, as I show in scenario four, for  
(16) example, with the change in rates, we get an  
(17) increase in damages only after the rates change in  
(18) that scenario. Mainly it was because I was given  
(19) information that the damage period begins in '86.  
(20) Q: Okay. Do you have an understanding of why  
(21) it begins in '86, rather than earlier in '84?  
(22) A: No, sir.  
(23) Q: This is a page that has sort of a footnote  
(24) page on one of these; that it doesn't have any  
(25) interest rate information on it, but it does have

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(1) some other. And that's page 20 on the Appendix A.  
(2) MR. MARKER: That's six?  
(3) Q: That's six. It's these -- Here you go.  
(4) This one has page 20 on the back.  
(5) A: Okay.  
(6) Q: Okay. Is this simply -- Under the heading  
(7) SIS, is that simply indicating that for the years  
(8) indicated the source of information about sets in  
(9) service came from those various exhibits?  
(10) A: That's correct, yes.  
(11) Q: And then under the heading prices, can you  
(12) tell me what those were -- what those were used  
(13) for?  
(14) A: Those were used to develop the dollar 50  
(15) and the subsequent price changes that occurred,  
(16) AT&T's lease price changes.  
(17) Q: Okay. So that's just the actual AT&T lease  
(18) rates?  
(19) A: Yes.  
(20) Q: Okay.  
(21) (Defendants' Exhibit Cameron 7  
(22) marked for identification.)  
(23) Dr. Cameron, let me hand you what's been  
(24) marked as Exhibit 7 to your deposition. That is, I  
(25) think, probably self-explanatory. It was a

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[1] document we received from the Carr Korein law firm  
[2] indicating that certain stuff -- certain documents  
[3] were provided to Bryan Cave in connection with this  
[4] case.  
[5] In particular the thing I want to ask some  
[6] questions about is what's identified as the sources  
[7] used by Exeter Associates in damages study, and  
[8] that's a one-page document attached.  
[9] A: Yes, sir.  
[10] Q: Have you seen this document before? Did  
[11] you produce it?  
[12] A: I believe we did.  
[13] Q: Okay. Do you recall -- Some of these  
[14] things I think we already talked about, so I won't  
[15] ask you about those. The third item down says  
[16] Noble Exhibits 394 and 395 and has another document  
[17] identifier. Do you know what those were used for?  
[18] Do you recall what those were used for or what  
[19] information you got off of them?  
[20] A: Off the top of my head, I'm sorry, sir. I  
[21] don't off the top of my head.  
[22] MR. BURKE: Okay. Well, Michael, for your  
[23] benefit, we can't find anything called an  
[24] Exhibit 394 or Exhibit 395 in --  
[25] MR. MARKER: She probably didn't use it.

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[1] MR. BURKE: I have a feeling that this --  
[2] MR. MARKER: If there's a correction,  
[3] we'll --  
[4] MR. BURKE: -- is some kind of mistake. If  
[5] you could let us know what that is.  
[6] A: Could it have been De Lura Exhibit 394 or  
[7] 395?  
[8] Q: (By Mr. Burke) I don't think so.  
[9] A: All right. We will check into that.  
[10] Q: Okay. I think that's just a  
[11] misdescription, and we couldn't figure out what it  
[12] was supposed to be.  
[13] A: Try Exhibit 304. Exhibit 304 sounds  
[14] familiar. I'm not sure.  
[15] Q: And then do you recall what -- Going down,  
[16] the Susan Ragsdale letter, do you recall what that  
[17] was about and what you used that for?  
[18] A: No, sir. I would know it if I -- I'm sure  
[19] I would know it if I saw it, but I don't recall off  
[20] the top of my head.  
[21] Q: Well, let's see if it's one of those things  
[22] we can find. Let me show you that. Is that it?  
[23] Do you recognize it?  
[24] A: I don't. This must have been something we  
[25] found on Marvin's desk, so we decided to include it

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[1] for the sake of erring on the conservative side. I  
[2] didn't use it.  
[3] Q: How about the next item that's called  
[4] repair prices; do you recall what that was used  
[5] for?  
[6] A: Repair prices, no. I don't recognize it  
[7] just by that name. I'm sorry. I don't.  
[8] Q: I think this is that. Do you recognize  
[9] that?  
[10] A: It says it's also part of De Lura 198. Not  
[11] something I personally relied on. We may have used  
[12] it as a sanity check when we were doing something,  
[13] but it is not something I relied on.  
[14] Q: Did you use repair prices for -- as a  
[15] source of -- in any way as data in your  
[16] calculations?  
[17] A: I did not, and I'm not confident that we  
[18] did not use anything by that name. Like I said, we  
[19] may have used it as a sanity check on our  
[20] refurbishment costs to make sure that we were -- I  
[21] didn't use it; I can tell you that.  
[22] Q: Okay. Okay. You described earlier these  
[23] are the '91 and '94 break-even analyses that you  
[24] talked about earlier?  
[25] A: Yes.

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[1] Q: Then you talked about Form Ms that were  
[2] submitted to the FCC. These -- I think one of the  
[3] documents identified Pennsylvania, New Jersey, and  
[4] Delaware as states that you had data from.  
[5] A: That's -- It was Pennsylvania, New Jersey,  
[6] and somebody. I believe Delaware was the third  
[7] state.  
[8] Q: Okay. And those were Form Ms? I mean, you  
[9] got this information from these Form Ms?  
[10] A: From the Form Ms, yes.  
[11] Q: Okay. The item down there called  
[12] Exhibit 133, 1993 AT&T business plan, do you recall  
[13] what you used that document for?  
[14] A: Not specifically. If you have a copy, I  
[15] may --  
[16] Q: Well, let me show you this and see.  
[17] A: I did not use it. I suspect, again, this  
[18] was one of those things that we -- we listed to be  
[19] safe, rather than sorry.  
[20] MR. BURKE: Okay. Well, Michael, again  
[21] I'll just point out on the written list it calls it  
[22] Exhibit 133, and this thing is actually Exhibit  
[23] 113. So I'm -- We're assuming that this is  
[24] probably what it means.  
[25] MR. MARKER: Right.

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[1] Q: (By Mr. Burke) But don't know for sure.  
[2] The next item is identified as the Value Line  
[3] investment survey for, you know, a variety of  
[4] years. Then it's indicated to be publicly  
[5] available data. Do you have a recollection of what  
[6] you used the Value Line investment survey for?  
[7] A: Yes, sir. We would have used it for a  
[8] couple of things probably. One, we were looking  
[9] just at trends in -- Well, I was looking for AT&T's  
[10] financials, if you will, the kind of financials  
[11] that are reported in Value Line. I was looking at  
[12] AT&T and the market in which AT&T was classified at  
[13] that time, just to make sure there wasn't anything  
[14] there that we should know. I wanted to know if  
[15] they were reporting -- Value Line would report if  
[16] the FCC had given AT&T a -- or had approved a  
[17] different cost of capital for them. We also went  
[18] to the Value Lines to look for some value lines and  
[19] the market guide information just to look at the  
[20] leasing industry in general.  
[21] Q: What do you mean? What kind of information  
[22] would you get on the leasing industry in general?  
[23] A: Well, we tried to get just general  
[24] information by SIC code, just to look at -- see  
[25] what we could find in terms of what to expect in

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[1] terms of overhead rates, rates of return, were they  
[2] superabnormal, super under normal, was there  
[3] anything really out of the ordinary that we should  
[4] know about the leasing industry.  
[5] There was nothing there that we relied upon  
[6] heavily in this particular study. But due  
[7] diligence would require that -- obviously that we  
[8] needed to go and have a look and see there wasn't  
[9] anything there we needed to know about.  
[10] Q: Okay. So is it fair to say you did not  
[11] actually rely on any data that you -- yeah, you  
[12] didn't rely on any data that you gleaned from the  
[13] Value Line investment survey?  
[14] A: From -- No. I did not rely on any data  
[15] that I gleaned from the Value Line investment  
[16] survey.  
[17] Q: You didn't use any numbers?  
[18] A: I did not use any numbers out of that, no.  
[19] Q: Okay. This next item here, this market  
[20] guide, is a website; is that right?  
[21] A: Yes, it is.  
[22] Q: Okay. And I will show off my limited  
[23] technological skills. I went to that website, and  
[24] I have no clue -- I mean, it's got everything on it  
[25] basically. What did you utilize the market guide

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[1] website for?  
[2] A: We went there to see if we could go back to  
[3] 1983, '84, that time frame, to see if we could get  
[4] historical data on the leasing industry and rates  
[5] of return, as I just indicated a second ago, see if  
[6] there was anything back from that period of time  
[7] that would jump out at us that we needed to know  
[8] about.  
[9] Q: Was this the same sort of due diligence  
[10] approach that you described?  
[11] A: Absolutely.  
[12] Q: You didn't get any information off this  
[13] website that you relied on --  
[14] A: I did not.  
[15] Q: -- or any numbers that you used?  
[16] A: No numbers that I used, that's correct.  
[17] Q: Based on your look at the -- Or based on  
[18] your work here in this case, is it fair to say that  
[19] large numbers of lease customers stopped leasing  
[20] from AT&T in 1984 and in 1985?  
[21] A: I think the numbers speak for themselves.  
[22] If you look in there, you will see that there were  
[23] a fair number of sets in service that were not in  
[24] the embedded-base class at the end of that period  
[25] that were there at the beginning of that period.

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[1] Q: Did you make any judgment or form any  
[2] opinion about why customers stopped leasing from  
[3] AT&T?  
[4] A: No, sir, I did not.  
[5] Q: Did you form any opinion or make any  
[6] judgment about whether or not they were making good  
[7] decisions to stop leasing from AT&T?  
[8] A: I did not.  
[9] Q: Are you saying here in connection with the  
[10] work you've done with this case that AT&T should  
[11] have used one of your approaches to set its lease  
[12] rates?  
[13] A: No, sir. We covered this territory before,  
[14] too.  
[15] Q: Did we?  
[16] A: Yes.  
[17] Q: Sorry. Okay. Do you know whether or not  
[18] any other companies -- did I ask you that, too --  
[19] whether anybody else did get into the leasing  
[20] business on leasing telephones?  
[21] A: Yes, sir. We covered that.  
[22] Q: Did you do any other analysis in connection  
[23] with this case that is not presented in the data  
[24] that we have here?  
[25] A: No, sir, nothing other than just the

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[1] ordinary start-up stuff that you do when you're  
[2] trying to get stuff up and running. Like you can  
[3] see, I mean, this data begins in 1984. So, I mean,  
[4] we --  
[5] Q: You didn't have a fifth scenario that  
[6] you --  
[7] A: No.  
[8] Q: -- calculated and --  
[9] A: Absolutely not.  
[10] Q: -- discarded for some reason?  
[11] A: No.  
[12] Q: Only one at a time.  
[13] A: Sorry.  
[14] Q: Even if you didn't do any other  
[15] calculations, did you consider any other model to  
[16] apply and choose not to do that?  
[17] A: I think the scenarios that we have chosen  
[18] cover the ground really. As I said, when we first  
[19] started off, we began by considering what data we  
[20] had to work with. We're limited with our data, and  
[21] I think we worked -- first of all, we worked to  
[22] make the most of the data we had. We worked --  
[23] stayed -- always working to be very conservative  
[24] with the data we had, but we've utilized the data  
[25] well. And the answer is no, I don't think it's

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[1] necessary to do any additional scenarios.  
[2] Q: Okay. That wasn't really exactly my  
[3] question. It was whether or not you considered any  
[4] other models and did not apply them.  
[5] A: No.  
[6] Q: Is there any other work you plan to do in  
[7] connection with this case between now and trial?  
[8] A: If we could get additional better data,  
[9] clearer data on recurring costs, on any of the  
[10] areas where I've indicated to you where, you know,  
[11] we've always had to go in and err on the side of  
[12] being conservative, you know, would be -- be happy  
[13] to, you know, utilize that data.  
[14] Q: I think I asked this before, too. If I can  
[15] get you to take a look at Exhibit 5, it's marked as  
[16] Appendix -- Appendix B, it's marked as Exhibit 5.  
[17] A: Okay.  
[18] Q: These are the sheets that show the results  
[19] of your calculations, the so-called reasonableness  
[20] rates that you've calculated under the different  
[21] scenarios.  
[22] A: Yes, sir.  
[23] Q: And, again, I would be very interested in  
[24] seeing any detailed spreadsheets that lie behind  
[25] these numbers, and I think you told me if there

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[1] were such things, Dr. Kahn would know about them?  
[2] A: Yes. Beyond what we've already discussed  
[3] with respect to scenarios three and four, which we  
[4] did go over some of those today, but beyond that,  
[5] other than what's embedded in Exhibit 7 and Exhibit  
[6] 5, you'll have to discuss that with him; because  
[7] I'm not aware of any.  
[8] MR. BURKE: Okay. I don't think I have any  
[9] other question.  
[10] MR. BENNETT: Let's talk for a minute or  
[11] two, and then we'll see if we can wrap it up.  
[12] (Off the record.)  
[13] MR. BURKE: I have a few more.  
[14] How much are you being paid in connection  
[15] with the work you're doing in this case?  
[16] MR. MARKER: She's being paid?  
[17] A: I get paid by Exeter Associates. I have a  
[18] billing rate, and we charge this firm our standard  
[19] billing rates.  
[20] Q: What is your billing rate?  
[21] A: My billing rate is \$120 an hour.  
[22] Q: Do you know what Dr. Kahn's billing rate  
[23] is?  
[24] A: Dr. Kahn's billing rate, I think, is -- I'm  
[25] going to embarrass myself if I get it wrong, but I

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[1] think his billing rate is 150 or 155 an hour.  
[2] Q: And those are the rates that you are  
[3] charging the Carr Korein firm --  
[4] A: Yes.  
[5] Q: -- in this case? How much time have you  
[6] put into the case so far?  
[7] A: I don't know.  
[8] Q: What's your best estimate?  
[9] A: Gosh, early in October there were a lot of  
[10] hours. I just don't know. I honestly don't know.  
[11] Q: Can you put it in a range, like, over a  
[12] hundred, over 500?  
[13] A: Over a hundred hours, if that's what you're  
[14] asking, yes.  
[15] Q: Okay. Over 500; would it be that high?  
[16] A: I don't think so.  
[17] Q: Have you ever testified in a case that  
[18] involved a company called Valor Telecom?  
[19] A: Valor is a company that's just been created  
[20] that does business in New Mexico. I testify in New  
[21] Mexico. Valor is free to intervene in any case in  
[22] New Mexico they want to intervene in. So I mean, I  
[23] guess I've testified in cases where they could have  
[24] intervened, but I'm not --  
[25] Q: Did you ever testify on their behalf?

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[1] A: Absolutely not.  
[2] Q: Have you ever been in either a consulting  
[3] position with -- Well, let's start there. Have you  
[4] ever been in a consulting position with Valor?  
[5] A: No.  
[6] Q: Have you ever been in an adversary position  
[7] with Valor, that you know of?  
[8] A: Like I said, Valor is free to intervene in  
[9] any case in New Mexico, and to the extent they may  
[10] have intervened in a case, they may have taken a  
[11] position that would have sided essentially with  
[12] Qwest, who is the regional Bell operating company.  
[13] I'm not aware that Valor has intervened or had a  
[14] presence in any of the cases that I've been  
[15] involved in. They're a fairly new player on the  
[16] block.  
[17] Q: Okay. Have you ever testified for any  
[18] telephone company?  
[19] A: For a telephone company? If by for a  
[20] telephone company you mean a competitive local  
[21] exchange company, the answer is yes.  
[22] Q: Would you explain to me what you mean by a  
[23] competitive local exchange company?  
[24] A: A competitive local exchange company is a  
[25] nonincumbent. Southwestern Bell is an incumbent

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[1] local exchange company. A competitive local  
[2] exchange company is an entrant, a new entrant, into  
[3] the local exchange market. AT&T is a long distance  
[4] carrier. AT&T would be a competitive local  
[5] exchange carrier if they entered the local exchange  
[6] market in a particular state.  
[7] Q: Okay. Have you ever testified on behalf of  
[8] any former Bell entity?  
[9] A: On behalf of a former Bell entity?  
[10] Q: Let me break it down into two parts. Prior  
[11] to the breakup, did you ever testify on behalf of  
[12] AT&T or any of its parts?  
[13] A: No.  
[14] Q: Okay. After the breakup, did you ever  
[15] testify on behalf of AT&T anywhere?  
[16] A: No.  
[17] Q: After the breakup, did you ever testify on  
[18] behalf of any of the former parts of AT&T that were  
[19] divested?  
[20] A: No.  
[21] Q: We've talked a lot about the regulated  
[22] industries or regulated markets. What's the  
[23] difference between a regulated industry and an  
[24] unregulated industry?  
[25] A: In a regulated market, the -- there will be

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[1] a regulating entity that will have control to some  
[2] degree over certain prices that the regulated  
[3] entity may charge. I mean, that's a pretty broad  
[4] question. Obviously regulation takes on many  
[5] forms.  
[6] Q: Okay. But is the basic hallmark of an  
[7] unregulated industry that there is no regulatory  
[8] authority that oversees setting prices?  
[9] A: Is that the hallmark of it?  
[10] Q: Is that a hallmark of.  
[11] A: Is that a hallmark of it? That's one  
[12] aspect of it.  
[13] Q: Do you remember, by chance, what your phone  
[14] number was in 1984 or 1985, 1986?  
[15] A: No.  
[16] Q: Okay.  
[17] A: No.  
[18] Q: Out of all the work you've done in this  
[19] case, can you give an opinion as to what you think  
[20] the highest rate AT&T could have charged, highest  
[21] lease rates AT&T could have charged, for its  
[22] equipment that you would consider to be reasonable?  
[23] MR. MARKER: I'm -- Unless you want to read  
[24] back the question, did you specify a time frame for  
[25] this question?

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[1] Q: No. During the time period from 1984  
[2] MR. MARKER: Through the present?  
[3] Q: To the present based on your analysis.  
[4] A: And once again, we've been down this road,  
[5] but the highest cost base rate they could have  
[6] charged, at least based on my cost analyses of the  
[7] rates that are in my tables.  
[8] MR. BURKE: Okay. No other questions.  
[9] Thank you.  
[10] MR. ARMSTRONG: We're going to reserve  
[11] signature, Pam.  
[12] THE WITNESS: What's that?  
[13] MR. MARKER: You'll have the right to read  
[14] the deposition once it's finished.  
[15]  
[16] (Original Defendants' Exhibits  
[17] Cameron 1 through 7 attached to  
[18] original transcript.)  
[19]  
[20] SIGNATURE RESERVED, BY AGREEMENT OF COUNSEL AND  
[21] WITNESS  
[22]  
[23]  
[24]  
[25]

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(1) WITNESS SIGNATURE PAGE

(2)  
(3) COMES NOW THE WITNESS, PAMELA CAMERON,  
(4) and having read the foregoing transcript of the  
(5) deposition taken on the 6th day of November, 2001,  
(6) acknowledges by signature hereto that it is a true  
(7) and accurate transcript of the testimony given on  
(8) the date herein above mentioned.

(9)  
(10) \_\_\_\_\_  
(11) PAMELA CAMERON

(12)  
(13) Subscribed and sworn to me before this \_\_\_\_ day  
(14) of \_\_\_\_\_, 2001. My Commission  
(15) expires: \_\_\_\_\_

(16)  
(17)  
(18) \_\_\_\_\_  
(19) Notary Public

(20)  
(21)  
(22)  
(23)  
(24)  
(25)

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(1) correctly set forth the testimony of the  
(2) aforementioned witness, together with the questions  
(3) propounded by counsel and remarks and objections of  
(4) counsel thereto, and is in all respects a full,  
(5) true, correct and complete transcript of the  
(6) questions propounded to and the answers given by  
(7) said witness; that signature of the deponent was  
(8) not waived by agreement of counsel.  
(9) I further certify that I am not of  
(10) counsel or attorney for either of the parties to  
(11) said suit, not related to nor interested in any of  
(12) the parties or their attorneys.

(13) Witness my hand and notarial seal at  
(14) St. Louis, Missouri, this 14th day of November,  
(15) 2001.  
(16) My Commission expires September 2, 2004.

(17)  
(18) \_\_\_\_\_  
(19) Notary Public in and for the  
(20) State of Missouri

(21)  
(22)  
(23)  
(24)  
(25)

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(1) STATE OF MISSOURI  
(2) SS.

(3) CITY OF ST. LOUIS

(4) I, Pamela Watson Harrison, a Notary  
(5) Public in and for the State of Missouri, duly  
(6) commissioned, qualified and authorized to  
(7) administer oaths and to certify to depositions, do  
(8) hereby certify that pursuant to Notice in the civil  
(9) cause now pending and undetermined in the Circuit  
(10) Court of the Third Judicial Circuit, Madison  
(11) County, Illinois, to be used in the trial of said  
(12) cause in said court, I was attended at the offices  
(13) of Carr, Korein, Tillery, Kunin, Montroy, Cates,  
(14) Katz & Glass, 701 Market Street, Suite 300, in the  
(15) City of St. Louis, State of Missouri, by the  
(16) aforesaid witness; and by the aforesaid attorneys;  
(17) on the 6th day of November, 2001.

(18) That the said witness, being of sound  
(19) mind and being by me first carefully examined and  
(20) duly cautioned and sworn to testify the truth, the  
(21) whole truth, and nothing but the truth in the case  
(22) aforesaid, thereupon testified as is shown in the  
(23) foregoing transcript, said testimony being by me  
(24) reported in shorthand and caused to be transcribed  
(25) into typewriting, and that the foregoing pages